



# CALIFORNIA STATE BUDGET

## == 2004 - 05 ==

Governor Schwarzenegger's signing of the 2004 Budget Act caps seven months of substantial progress on each part of the four-point economic recovery plan he announced in January:

- In March, Californians approved Proposition 57—the Economic Recovery Bond Act—which will refinance a portion of the total inherited debt and which averted a cash crisis in June.
- Also in March, Californians approved Proposition 58, which requires balanced budgets, growing budget reserves and gives the governor new powers to keep state spending in balance.
- In April, the Governor forged a bipartisan agreement with the Legislature and signed SB 899—legislation that comprehensively overhauls and reforms the state's workers' compensation system—to move the state forward on business climate reform. And in July, agreement was reached to overhaul 2003 legislation that encouraged frivolous business lawsuits.
- And now, the Governor has signed a budget act that moves the state toward structural balance.

Confidence in California's new fiscal direction is evidenced by the fact that the state has already secured the first increase in its overall credit rating in four years—and only the fourth time the state's credit rating has been increased before a budget has been enacted.



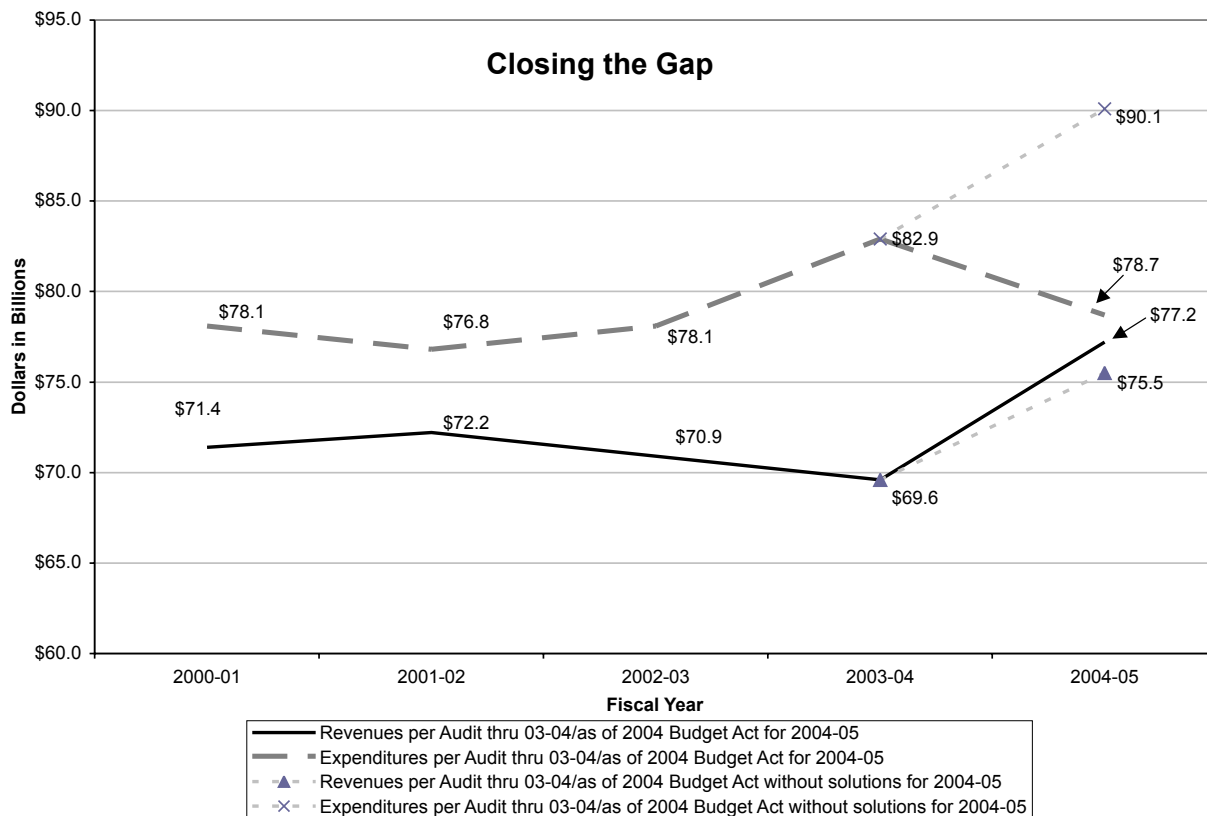
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Following are key features of the 2004 Budget Act:

- It contains no tax increases.
- It spends more than \$10 billion less than projected baseline spending in 2004-05.
- It improves the state's out-year fiscal forecast through an early repayment of nearly \$1.4 billion in transportation loans that had been scheduled for repayment in future years—freeing up new funds this year for transportation projects at the state and local levels.
- It keeps in place the Governor's 2003 roll-back of the car tax—a tax cut totaling \$4.1 billion in this fiscal year.
- It contains reforms in the state's retirement system that will generate \$2.9 billion in savings over 20 years.
- It increases total per-pupil funding for K-12 students by \$283—from \$9,528 to \$9,811.
- It reflects the governor's Compact with Higher Education that guarantees predictable tuition, annual increases in both student enrollment and per-pupil spending, and accountability measures for the University of California and California State University systems beginning in 2005.
- It provides for total year-over-year growth of more than \$600 million in funding for California Community Colleges.
- It rolls back more than \$100 million in fee increases.
- It incorporates the Governor's historic agreement with local governments to prevent the state from using local revenues to balance state budgets in future years.
- It institutes reforms in the state's public employee retirement system that will provide substantial long-term savings.
- It implements needed reforms in the budgeting practices in the Department of Corrections.
- It provides additional tools to law enforcement and parole agents at the Department of Corrections to adequately supervise parolees and reduce victimization by lowering the rate of recidivism.
- It implements procurement reform in state government, allows the state to sell surplus property faster, and will create California's first "e-budget" next year.

The Governor's signature of the 2004 Budget Act comes at a time when California's economy is continuing to rebound, as evidenced in several key indicators:

- A pick-up in California job growth, with broad-based employment gains averaging 20,000 per month for the past four months.
- Faster growth in personal income, with first-quarter 2004 growth of 5.8 percent compared to the same period in 2003.
- Growing taxable sales, with improving incomes fueling the sixth quarterly year-over-year growth in a row.
- A sharp turnaround in exports of made-in-California merchandise, with a remarkable 25-percent jump in first-quarter exports compared to the same period just one year ago—nearly double the growth in the nation's exports as a whole.
- Increased signs of a recovering tourism industry—including higher room rental rates, more bookings for conventions, and higher passenger counts at major California airports.





## Budget Highlights

### Education

In recognition of the State's fiscal condition, the Administration and the education community agreed to rebase the 2004-05 Proposition 98 funding guarantee by \$2 billion and direct available funding to specific priorities. The Budget Act maintains this agreement. Additionally, funding required under Proposition 98 for 2002-03 and 2003-04 that was not anticipated in the budgets for those years will be provided as part of a multi-year settle-up of Proposition 98 obligations, beginning in 2006-07. The Administration has agreed that the priorities for spending any amounts above the levels needed for programs funded in the 2003-04 fiscal year are: (1) growth in enrollment and cost-of-living adjustments, (2) restoring general-purpose revenue limit funding reductions made in the 2003-04 Budget, (3) paying valid State-mandate claims, and (4) providing additional general purpose funds and funding for state priorities in a 75 percent to 25 percent ratio, respectively.

FIGURE K-12-1

	Proposition 98 (Dollars in Thousands)		
	2002-03	2003-04	2004-05
General Fund Appropriation	28,892,385	30,411,562	34,003,295
Local Revenue	14,802,929	15,789,049	12,985,590
Total Funded Guarantee	43,695,314	46,200,611	46,988,885
General Fund Reserve for P98			301,569
Base Guarantee Level	44,182,000	46,681,716	49,294,450
Savings	486,686	481,105	2,003,996

As shown in Figure K-12-1, compared to Proposition 98 funding that would have been provided in this Budget without this agreement, the Budget reflects \$968 million in one-time savings for 2002-03 and 2003-04 and an ongoing savings of \$2 billion beginning in 2004-05. The \$2 billion savings from rebasing the guarantee will eventually be restored to the Proposition 98 budget as per capita General Fund revenue growth exceeds per capita personal income

growth. Also, beginning in 2006-07, \$150 million per year will be provided to settle-up an estimated \$1.2 billion in various prior-year Proposition 98 obligations dating back to 1995-96 and including 2002-03 and 2003-04.

Even with the rebasing of the guarantee, there is approximately \$2.3 billion in additional funding capacity within the Proposition 98 budget for 2004-05 compared to the 2003-04 enacted Budget. This results from the natural growth in the guarantee, the release of funds used for one-time prior-year obligations, and other changes such as caseload adjustments in various programs. Additionally, the Budget reflects \$302 million in General Fund reserves for Proposition 98, which were generated by increased revenues reflected in the final budget agreements. The amount of Proposition 98 maintenance factor owed to schools and community colleges in future years as economic conditions improve is \$3.6 billion.

As shown in Figure K-12-2, the General Fund contribution to the guarantee increases by \$3.6 billion from 2003-04 to 2004-05, while the local revenue contribution (property taxes) is reduced by \$2.8 billion. This large funding shift reflects the

FIGURE K-12-2

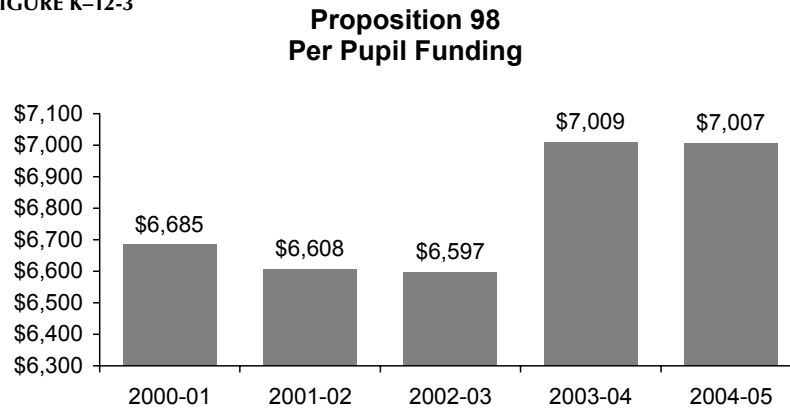
<b>Proposition 98 Appropriations</b> (Dollars in Thousands)			
<b>Funding/Recipient</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>
State General Fund	\$28,892,385	\$30,411,562	\$34,003,295
K-12	(\$26,155,778)	(\$28,043,968)	(\$30,873,601)
Other State Agencies	(\$94,504)	(\$95,124)	(\$94,545)
California Community Colleges	(\$2,642,103)	(\$2,272,470)	(\$3,035,149)
Local Revenue	\$14,802,929	\$15,789,049	\$12,985,590
K-12	(12,812,498)	(13,666,244)	(11,213,733)
California Community Colleges	(1,990,431)	(2,122,805)	(1,771,857)
Total	\$43,695,314	\$46,200,611	\$46,988,885
Reserve			\$301,569

agreement with California's local governments to shift Vehicle License Fee revenues to the State, replace those revenues with additional property tax allocations, and hold schools harmless by providing additional General Fund moneys and reallocating local property taxes. Additionally, there is modest growth in the underlying property tax estimate, and the portion of school property tax shifted to cities and counties for the deficit bond financing arrangement is \$1.136 billion, which represents a savings to the General Fund of the same amount as compared to the original deficit bond-financing proposal in the 2003-04 Budget. Property taxes are increased and General Fund for Proposition 98 is saved by \$1.3 billion as part of the local government agreement.

In total, the Proposition 98 portion of the budget reflects General Fund budget solutions of \$4.44 billion in 2004-05. This is an 11.5 percent reduction in General Fund cost savings realized with the adoption of these solutions. Additionally, the K-12 budget reflects \$170.9 million in non-Proposition 98 General Fund savings, amounting to 14.4 percent in savings from the non-Proposition 98 portion of the K-12 Budget, excluding debt service.

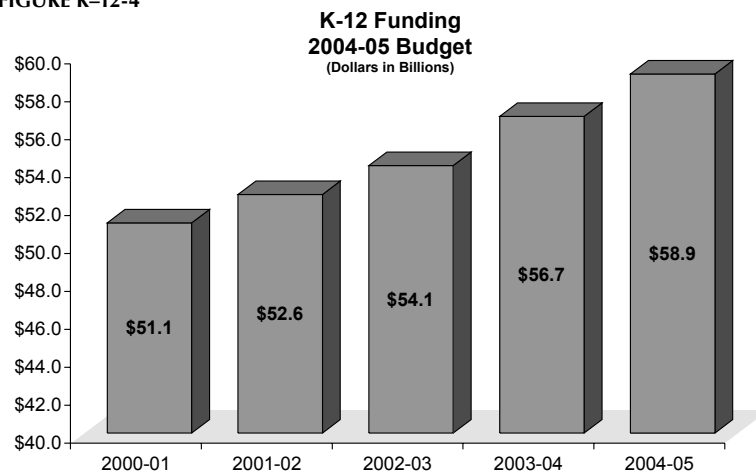


FIGURE K-12-3



**K-12 Proposition 98 Per Pupil Funding**—Funding per pupil under Proposition 98 decreases from the revised 2003-04 estimate to 2004-05 as shown in Figure K-12-3. Per pupil funding of \$7,007 in 2004-05 represents a growth of \$410 per pupil from the 2002-03 level, with a slight decrease of \$2 from the 2003-04 level. This decrease is significantly affected by the \$259 million in one-time expenditures from 2003-04 funds that were not part of the 2003-04 Budget Act. Compared to the 2003-04 Budget Act level of \$6,887 per pupil, 2004-05 ongoing per pupil expenditures have increased \$120. Total General Fund allocations of \$30.9 billion for K-12 education now represent 41.3 percent of the General Fund budget.

FIGURE K-12-4



**Total K-12 Funding**—Total funding from all sources is increasing as shown in figure K-12-4. An increase of \$2.2 billion over 2003-04 brings total funding to \$58.9 billion. Total funding per pupil increases by \$283 from \$9,528 in 2003-04 to \$9,811 in 2004-05. This represents a three percent increase over the adjusted estimate for 2003-04.

From 2003-04 to 2004-05, General Fund dollars for K-12 increase by \$4.3 billion, while local property taxes fall by \$2.4 billion and federal funds grow by \$422.5 million. Major General Fund changes include:

- An increase of \$2.8 billion to Proposition 98 General Fund.
- An increase of \$397 million in the use of Proposition 98 Reversion Account funds.
- An increase of \$590.9 million in contributions to the State Teachers' Retirement System.
- An increase of \$737.9 million in bond debt service.
- A net decrease for emergency loans to school districts (\$60 million in 2003-04 and repayment of \$178 million in 2004-05).

**School Fiscal Conditions**—Although revenues from all sources available to schools in 2004-05 have increased by 3.95 percent over the 2003-04 level, school budgets will continue to operate under significant fiscal pressures. This is reflected in the steady increase in the number of school districts with qualified or negative certifications of their interim budget reports, rising from no more than 26 between 1995-96 and 2000-01, to 57 at the first interim report for 2003-04. While this had declined to 45 at the second interim report, nine districts have negative ratings and one obtained an emergency loan at the end of 2003-04.

To improve school district budgeting, fiscal analysis and oversight of school fiscal conditions, the Governor signed AB 2756 (Chapter 52, Statutes of 2004). This Governor-sponsored legislation also improves existing provisions of law relating to the conditions for receiving emergency loans when districts become insolvent. The Governor and Legislature agreed on the intent to prevent any future insolvencies. However, if emergency loans and temporary State takeover of some districts becomes necessary, corrective action would be taken and decision-making authority returned to district boards as quickly as possible, while still maintaining educational quality.

**Enrollment Growth**—The Budget reflects \$508.5 million to provide enrollment growth increases for apportionments (\$412.3 million), Special Education (\$35.6 million), and other categorical programs (\$60.6 million). This includes \$10.3 million deferred to 2005-06, and reflects the Administration's goal of preserving core K-12 services despite difficult fiscal times.

**Cost of Living Adjustments**—The Budget includes \$1.0 billion to provide a 2.41-percent COLA increase to K-12 programs. Included in this amount is funding for apportionments (\$740.5 million), Special Education (\$91 million), and other categorical programs (\$173.7 million). This includes \$25.3 million deferred to 2005-06.



**Revenue Limits**—Revenue limit funding constitutes the basic funding source for classroom instruction. The Budget provides a net increase of over \$1.2 billion to district and county office of education revenue limits. This includes funding for enrollment growth, a COLA adjustment, equalization, increases in the cost of Unemployment Insurance reimbursements, and \$270 million to reduce the deficit factor on base revenue limits from 1.2 percent to 0.3 percent. Total spending on revenue limits is approximately \$30.3 billion. This increase in general purpose funding reflects the Administration's interest in increasing local control over education decisions.

**Equalization**—The Budget includes \$109.9 million for equalization of school district revenue limits. This closes 26 percent of the remaining gap of the targeted 90th percentile of the distribution of revenue limits.

**Unemployment Insurance**—The Budget provides \$120.1 million to fully fund the increase in local education agency (UI) reimbursements. This increase is attributable to an increase in the UI rate from 0.30 percent of projected salaries, to 0.65 percent.

**PERS Offset**—The Budget reflects net reductions to district and county office revenue limits of \$155.9 million to reflect savings provided by current PERS contribution rates. Included in this amount is over \$36 million to local education agencies to mitigate the PERS offset to revenue limits, which provides additional general purpose revenues.

**Special Education**—In addition to the \$35.6 million for enrollment growth and \$91 million to fund a 2.41-percent COLA, the Budget includes an additional \$38.4 million to partially fund a revised formula for allocating funds to pupils with exceptional needs who reside in licensed children's institutions (LCIs). The Budget includes \$100 million for the provision of mental health services for children with exceptional needs, subject to legislation to clarify responsibilities for service delivery. In total, the Budget provides over \$2.7 billion in General Fund and nearly \$1.1 billion in federal funds for Special Education.

**Instructional Materials**—The Budget includes \$363 million in ongoing funding for instructional materials, representing an increase of \$188 million over the previous fiscal year. Of this amount, \$30 million is allocated on a one-time basis for the purchase of supplemental materials to help students, with a primary language other than English, quickly develop grade-level English language skills. Additionally, \$138 million is appropriated for the purchase of state standards-aligned materials for schools ranked in deciles 1 and 2 of the Academic Performance Index. This appropriation is intended to address issues raised in the *Williams v. State of California* litigation and will aid in reaching a settlement agreement.

**Deferred Maintenance**—The Budget includes \$250.3 million for district deferred maintenance needs. The level budgeted fully funds the program. This represents an increase of \$173.3 million over the 2003-04 level.



**Williams Litigation**—Budget totals include \$50 million in 2003-04 Proposition 98 funding available for funding one-time assistance to students and schools as a part of efforts to settle this litigation that has raised issues about the disparate availability of qualified teachers, well-maintained facilities and up-to-date instructional materials in schools serving predominantly low-income, minority and English-learning students.

**Reading First**—The Budget includes \$174.2 million federal funds for the Reading First Program, including \$29.6 million from prior years. The funding is available to: (1) support the two existing cohorts of Reading First districts, (2) provide funding for a third cohort, and (3) increase the funding rate available for all three cohorts to \$8,000 per teacher on a one-time basis. The increased per teacher funding rate will be used to provide focused assistance to students with reading problems by providing diagnostic reading assessments, teacher release time for intervention planning, instruction on specific skills and deficiencies, and teacher participation in professional development activities focused on assisting students with reading difficulties. This type of program has proven successful in reducing the number of unnecessary special education referrals.

**Accountability**—The Budget provides \$423.2 million (\$249.2 million Proposition 98 General Fund) for programs to assist and promote academic performance including:

- \$208.7 million (\$193.1 million Proposition 98 General Fund) for the third year of funding to assist low-performing schools through the High Priority Schools Grant Program, which provides grants of \$400 per pupil.
- \$66.4 million (\$53.1 million Proposition 98 General Fund) for the third year of implementation funding for schools in the Immediate Intervention/Underperforming Schools Program, which provides grants of \$200 per pupil.
- \$43.6 million in federal funds for new Comprehensive School Reform Program grants at \$200 per pupil for low-performing schools.
- \$37.7 million (\$3 million Proposition 98 General Fund) to assist schools subject to sanctions pursuant to State and federal accountability programs. \$12.5 million (\$10 million on-going) of these funds will be used for the Statewide System of School Support, which provides assistance to schools, districts, and county offices of education in need of improvement.
- \$66.8 million in federal Title I School Improvement funds for accountability activities, to be expended pursuant to pending legislation. The federal No Child Left Behind Act of 2001 requires states to ensure that all schools and districts are making adequate yearly progress benchmarks. If a Title I school or district fails to make adequate yearly progress for two consecutive years, it is identified as Program Improvement, and subject to interventions.



**Pupil Testing**—The Budget provides \$112.6 million (\$77 million Proposition 98 General Fund) for various statewide assessments which provide valuable information to parents, teachers, schools, and the State regarding pupil performance and are the foundation of the State’s accountability system:

- **\$66.5 million for the Standardized Testing and Reporting (STAR) Exam**—This assessment, administered in grades 2 through 11, serves as the primary indicator for the Academic Performance Index and measures pupil performance on various State-adopted academic content standards. The STAR exam includes a national norm-referenced exam administered in grades 3 and 7.
- **\$21.2 million for the High School Exit Exam (HSEE)**—Pupils who will graduate in the 2005-06 school year must pass the HSEE in order to receive a diploma.
- **\$21.9 million for the California English Language Development Exam**—This exam is required to be administered to pupils whose primary language is not English, within 30 days of enrollment and annually thereafter to pupils identified as English language learners. This assessment allows schools to ensure that pupils are taught using an appropriate curriculum.
- The Budget also provides \$3 million for the development of primary language tests aligned to State-adopted academic content standards for mathematics and language arts, pursuant to legislation. Once developed, these assessments would be given in place of the Spanish Assessment of Basic Education, which is a norm-referenced Spanish-language exam.

**Child Care and After-School Programs**—The Budget includes approximately \$2.7 billion for subsidized child care, including \$2.2 billion for programs in the Department of Education (SDE). SDE programs provide services to approximately 375,200 children, including those of CalWORKs families and other low-income families in a variety of high-quality center-based and parental choice voucher programs.

Services also are provided through the Department of Social Services (DSS) to CalWORKs families participating in employment training or work activities. The DSS budget includes \$485.4 million to serve 83,000 children in Stage 1, plus a reserve of \$56.2 million within the overall TANF reserve sufficient to serve 9,800 children in CalWORKs Stages 1 or 2 should estimated caseloads fully materialize.

**Child Care Reform**—In January, the Administration proposed reforms that would help reduce costs more in line with policies of other large states, including a system of tiered reimbursement rate limits to incentivize high quality and curb inequities among providers, a three-tiered income eligibility limit schedule to better reflect needs statewide based on housing costs, and a revised family fee schedule to reduce the “cliff effect” as families progress off subsidies toward full cost and to reinforce personal responsibility. These reforms have been deferred for one year

to allow time for the Administration to work with the Legislature to develop refined strategies for achieving overall savings of \$119.5 million between SDE-administered programs and Stage 1 administered through counties by DSS. These savings have been backfilled on a one-time basis from the Proposition 98 Reversion Account. In addition, the Budget designates after school programs as the preferred placement for 11 and 12 year olds, rather than more expensive subsidized care. However, given the uncertainty regarding the ability of these programs to meet family child care needs during weekends and odd hours, the Budget allocates \$27.3 million from the Proposition 98 Reversion Account and \$8.9 million from the TANF reserve as a contingency to provide services for 11- and 12-year olds in subsidized child care programs.

**Fiscal Integrity and Fraud Prevention**—Also, as part of the January budget, the Administration committed to work with SDE to develop a comprehensive statewide fiscal accountability and anti-fraud proposal. Work on the proposal has progressed throughout the Spring, and legislation has been agreed upon to begin to address instances of overpayments and fraud occurring in the subsidized system. \$1.5 million in federal funds are provided to support this effort. \$530,000 and 5.5 new positions are provided to SDE to implement a Compliance Monitoring Unit to perform annual compliance audits of each alternative payment agency. In addition, \$1 million is provided to SDE for expenses of county fraud investigation experts and district attorneys necessary to consult with the department in the development and implementation of an error rate study authorized through trailer bill legislation. That legislation requires SDE, in consultation with DSS and county fraud investigators, to determine rates of both fraud and overpayments related to eligibility determinations, family fees, provider reimbursement rates, and the need for child care. It also requires SDE to provide a report and recommendations for the prevention of fraud and overpayments by April 1, 2005, and to implement best practices for all contracts for means-tested child care in July 2005.

**Before- and After-School Programs**—The Budget includes over \$284 million in State and federal funds to provide before and after school enrichment programs for 275,000 children. Priority for expending over \$60 million in new federal 21st Century Community Learning Center funds will be placed on increasing slots for 11-and 12-year olds and their eligible younger siblings in order to accommodate these children in before and after school programs, rather than in more expensive subsidized child care programs. To further this goal, the Superintendent of Public Instruction has been given the authority to waive grant caps to enable programs to create additional slots. The Budget also allocates \$5 million to expand high school programs.

Also included in the total is \$20 million in one-time federal funds to be used to expand grant caps to increase slots for 11- and 12-year olds, increase days of program operation, and increase grant caps for programs with waiting lists. Additionally, \$5 million in one-time federal funds is available to programs in the first two cohorts for training, standards-aligned materials, and other allowable one-time costs.



In accordance with the provisions of Proposition 49, which was approved by the voters in November 2002, the After School Education and Safety Program became continuously appropriated in July 2004 at \$121.5 million. This amount will increase as other provisions of Proposition 49 become effective in subsequent years.

## Higher Education

**Total Funding**—The Budget provides total Higher Education funding of over \$16.2 billion from all revenue sources including approximately \$11.1 billion from the General Fund and Proposition 98 resources. This total reflects a year-over-year increase over revised 2003-04 expenditures of \$810 million (5.3 percent), including \$260 million from General Fund and Proposition 98 sources. Notwithstanding these increases, this total reflects General Fund solution savings of over \$1.1 billion in 2004-05 or an 11 percent reduction in General Fund cost compared to what the budget would have been without the solutions. When combined with 2003-04 state operations and local assistance solutions of \$155 million resulting from prior year and mid-year actions, higher education General Fund savings total \$1.3 billion toward closing the budget gap. These totals include \$400 million of Proposition 98 related solutions for Community Colleges. Solutions are noted at the end of this section.

University of California (UC) funding totals almost \$4.6 billion, including \$2.7 billion from the General Fund. California State University (CSU) funding totals approximately \$3.6 billion, including over \$2.4 billion General Fund. Total funding for the California Community Colleges (CCC) totals over \$6.9 billion, including \$5.0 billion from General Fund and Proposition 98 sources, of which nearly \$3.3 billion is from the General Fund alone. The California Student Aid Commission financial aid budget totals \$799 million, including \$637 million General Fund for various programs, including the Cal Grants entitlement and other programs.

**New Higher Education Compact**—The Administration completed agreements with both UC and CSU in the Spring to provide funding stability in the future in exchange for improved accountability in a variety of key student performance indicators and in recognition of both the necessary reductions they have sustained in the 2003 and the 2004 Budget Acts, and the unique contributions higher education provides for the economy and its citizenry. The compact assures increased enrollments beginning in 2005-06 to maintain the Master Plan's promise of access, increased funding per student to sustain and improve quality, predictable fee increases that will stop the boom-and-bust cycle effects on students and families, sustained investment in academic preparation (outreach) programs, and as mentioned, a strong commitment to improving student outcomes in priority areas including course articulation, improved time to degree, administrative cost restraint, commitments to encourage more highly qualified math and science teachers as well as improvements in the quality of teacher preparation programs to meet the challenge of the state's rigorous content standards.

**Enrollment**—The Budget provides Community Colleges with a \$148.1 million increase for additional enrollment growth, enough to fund 39,000 new full-time equivalent students (FTES) in 2004-05. Additionally, while some CCC's experienced declining enrollment in 2003-04, the funding associated with those declines are retained in the budget to allow the system to accommodate an additional 11,000 FTES in 2004-05. CCC will therefore have the capacity to serve approximately 1,143,000 total FTES in 2004-05. Together, these resources will help ensure access to undergraduate work for all eligible students within the public higher education segments.

The Budget provides no funding for enrollment growth for UC, in accordance with legislative intent stated in Chapter 228, Statutes of 2003 (AB 1756). However, UC funding is sufficient to fund a total enrollment of approximately 201,000 FTES, reflecting a reduction of approximately 1,700 FTES from 2003-04. The Budget provides the CSU \$12.2 million for enrollment growth, thereby providing the CSU with sufficient funds for approximately 2,100 additional enrollments, bringing its total enrollment to approximately 324,100 FTES. Despite this growth funding, the CSU figure reflects a reduction from 2003-04 levels of approximately 10,800 FTES in response to other mandatory cost increases and redirections which could not be funded due to the state's fiscal circumstances. Combined with the significant enrollment growth increases in the community colleges noted above, access is provided for all eligible students.

**Student Fees**—For 2004-05, both the UC and CSU governing boards approved 14-percent increases in systemwide undergraduate fees. Undergraduate fees for UC will increase from \$4,984 in the fall of 2003 to \$5,682 in the fall of 2004. Undergraduate fees for CSU will increase from \$2,046 in the fall of 2003 to \$2,332 in the fall of 2004. Under the new Higher Education Compact with the Administration, UC and CSU committed to increase undergraduate fees by no more than an average of 10 percent a year over the next three years. Therefore, given the 14 percent increase for 2004-05, fee increases will not exceed 8 percent in the subsequent two fiscal years.

Graduate student fees will also increase at UC and CSU. For the fall of 2004, the fees will increase 20 percent from \$5,219 to \$6,263 for UC academic graduates and from \$2,256 to \$2,707 for CSU teacher preparation graduate students. All other CSU graduate student fees will increase 25 percent from \$2,256 to \$2,820. Under the Compact, UC and CSU commit to phase in progress toward a policy goal that graduate fees be 50 percent higher than undergraduate fees in the long run. This goal more accurately reflects the higher cost associated with instructing these students and the individual benefits received as a result of graduate education. Professional school fees will increase in the fall of 2004 by varying amounts as UC implements the Budget's 25-percent reduction in General Fund subsidy for professional schools. Nursing fees will not change, however. The UC retains flexibility to determine specific fee increases based on competitive factors, state need for particular professions, current subsidy level, and earnings potential for each profession.



Both segments will set aside at least 20 percent of additional revenues generated by fee increases for undergraduate and graduate students for additional student financial aid to ensure access for needy students. UC fees remain competitive among its peer research universities. CSU fees still reflect the most affordable university system of its kind in the nation.

Student fees at CCC will increase by \$8 per unit for all students, to \$26 per unit. At this tuition level, CCC students will have the opportunity to qualify for the maximum federal Pell Grant award. Current federal law prevents CCC students from qualifying for the maximum award because of the very low tuition costs at CCC. Even after this fee increase, CCC fees will remain the lowest in the nation by almost \$200 annually, and will be only 30 percent of the national average.

**Other Community College Increases**—The Budget also includes increases of \$225.2 million as follows:

- **Equalization**—an increase of \$80 million is provided for the equalization of per student funding for credit instruction toward the 90th percentile of statewide funding among all districts. The equalization funding provides approximately one-third of the total multi-year resources required to address this need and, because it is general purpose funding, allows maximum discretion to the colleges to improve student services, add additional course sections, or enhance instruction in other ways.
- **COLA**—an increase of \$100.1 million to provide a 2.41-percent cost-of-living adjustment for apportionments for the CCC system.
- **Categorical Programs**—An increase of \$16.7 million is provided for categorical growth and COLA for programs historically receiving these adjustments. \$6 million of this amount is for expansion of non-credit student matriculation services.
- **One-time Infrastructure Grants**—\$28.4 million is provided on a one-time basis under the 2003-04 guarantee, for the purposes of funding additional maintenance, instructional materials and other infrastructure related costs.

**Cal Grants**—To help ensure access to higher education for deserving students, the Budget includes a total of \$746.3 million for the four types of Cal Grant awards. This represents an increase of \$91.5 million above what was provided for Cal Grants in the revised 2003-04 Budget. Of the total amount, \$146.5 million is funded on a one-time basis with surplus Student Loan Operating Fund revenues.

**Outreach**—The Budget provides General Fund resources of \$29.3 million for UC and \$7.0 million for CSU outreach programs. Along with a CSU internal redirection of \$45.0 million, it will enable the segments to maintain 2003 Budget Act levels totaling \$81.3 million for academic preparation and student support services pro-

grams. Additionally, \$43.2 million in outreach, media, and financial aid assistance programs at CCC are continued from 2003-04.

**Higher Education General Fund Solutions**—\$1.3 billion in General Fund solutions are reflected in the higher education budgets to help reduce the state's gap between expenditures and revenues. Significant solutions include:

- **University of California**—The 2004-05 Budget reflects \$321.8 million in General Fund reductions to UC's budget. Additionally, \$29.9 million in reductions were initiated in mid-year 2003-04 along with a one-time transfer of land sale proceeds netting over \$53 million to the General Fund reserve. Among the 2004-05 reductions were a \$113.9 million reduction that was offset by undergraduate and graduate fee increases, a \$42.6 million reduction in state subsidy for professional schools, and a \$45.4 million reduction by reducing academic and institutional support by 7.5 percent. In the absence of the reductions, the total General Fund support for UC would have been over \$3.0 billion. Moreover, while not reflected in solution totals, neither enrollment growth funding nor cost-of-living adjustments (COLA) were provided to the UC. Assuming a 2.5-percent UC enrollment growth rate, or 5,000 additional FTES, \$40.3 million in additional cost is avoided by not providing enrollment growth funding in 2004-05.
- **California State University**—The 2004-05 Budget reflects \$270.8 million in General Fund reductions to CSU's budget. Additionally, \$23.7 million in reductions were initiated in mid-year 2003-04. Among the 2004-05 reductions were an \$84.7 million reduction that was offset by undergraduate and graduate fee increases, a \$53.5 million reduction to reflect a 5-percent increase in the student-faculty ratio, and a \$52.6 million General Fund reduction by reducing academic and institutional support by 7.5 percent. In the absence of the reductions, the total General Fund support for CSU would have been \$2.7 billion. Further, while not reflected in solution totals, only partial enrollment growth funding and no cost-of-living adjustment (COLA) was provided to the CSU. Assuming a 3-percent CSU enrollment growth rate, or 10,000 additional FTES, \$45.8 million in additional cost is avoided by funding only 2,100 additional FTES in 2004-05.
- **California Community Colleges**—The Budget for CCC reflects \$400 million in fund shift solutions to help close the state's General Fund shortfall. These solutions include the \$8 per unit increase in student fees, which generates approximately \$68.2 million of revenue to offset General Fund expenditures, and the one-time use of Proposition 98 Reversion Account funds to support the Foster Parent Training Program, allowing \$5.4 million in revenues to be transferred to the General Fund. Further, the Budget reflects \$326.1 million of solutions that increase the community colleges' share of property taxes, which offset General Fund spending related to the state's Economic Recovery Bonds and the ERAF shift as part of the local government deal. None of the Community College fund shift solutions reduce college expenditures.



- **California Community Colleges Deferral**—The Budget repeats the deferral of \$200 million in payments to districts for apportionments to July of the next fiscal year in order to preserve access and maintain critical program spending in other Proposition 98 programs during 2004-05.
- **Student Aid Commission**—The 2004-05 Budget reflects \$157.2 million in General Fund savings for the Cal Grant program. Of the total savings, \$146.5 million is achieved by shifting Cal Grant costs from the General Fund to surpluses in the CSAC-administered Student Loan Operating Fund, and \$10.7 million is achieved by reducing the maximum award of new Cal Grant awards for students at private colleges and universities from \$9,708 to \$8,322. Total General Fund expenditures for financial aid programs in 2004-05 are \$636.8 million. Without the funding shifts and reductions contained in the Budget Act, total General Fund expenditures for financial aid programs would instead be \$794 million.
- **Scholarshare Investment Board**—The Budget contains \$40 million in one-time General Fund savings available from disencumbering earned but unclaimed Governor's Scholars awards. Under current law, students who met prescribed testing benchmarks for tests taken in 2000, 2001, and 2002 are eligible for the awards. Eligible students have five years from the time they took the test to claim their scholarship and earned interest and must enroll at an eligible higher education institution by their 30th birthday, or forfeit any remaining funds. This solution shifts \$40 million from the program's trust fund to the General Fund reserve. Enabling trailer legislation authorizes the Controller's Office to make transfers to pay any subsequent claimed awards if it becomes necessary; thus, no qualifying student will be adversely affected.

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## Health and Human Services

The Budget underscores the Administration's firm commitment to providing essential health and human services to California's most vulnerable and at-risk residents. Reflecting the guiding principles that California's health and human service expenditures must maintain essential services to those most in need, recognize children as a priority investment, promote personal responsibility, encourage work participation, and enhance program effectiveness and accountability, the Budget includes total expenditures of \$68.2 billion in combined State and federal funds for all 12 departments and one board under the purview of the Agency. This includes expenditures for 30,429.7 state positions.

The combined General Fund for both State Operations and Local Assistance for all departments under the Agency in the Budget represents approximately \$25.5 billion. This is an increase of \$2 billion over the 2003 Budget Act. However, the General Fund amount would have been much larger (\$26.8 billion), were it not for the significant savings (approximately \$1.3 billion) that have been included in



this budget. Some of the most notable savings proposals that are included in the Budget are as follows:

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### **Program Reform To Improve Outcomes**

**California Work Opportunity and Responsibility to Kids (CalWORKs)**—\$79.2 million General Fund savings from delaying the CalWORKs cost-of-living adjustment (COLA) for three months, implementing a reform that strengthens work participation requirements, and transferring TANF to achieve General Fund savings.

**In-Home Supportive Services (IHSS)**—\$11.4 million General Fund from implementing an IHSS Quality Assurance and Fraud Prevention Program (details in IHSS section).

**Foster Care** —\$22 million General Fund savings from implementing Foster Care reforms (see Foster Care Section).

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### **Program Reform To Promote Personal Responsibility**

**Regional Centers**—\$95.1 million General Fund savings in the purchase of services budget to reflect the impact of the continuation of cost containment measures on the base funding and growth trends, the implementation of the Family Cost Participation Plan, and increased federal funding.

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### **Budget Cuts To Reduce Spending**

**Medi-Cal**—\$358.6 million General Fund savings to realign fee-for-service pharmacy reimbursement more closely with the pharmacy industry's cost structure, assess a six-percent quality improvement fee on business within the Medi-Cal managed care plans to leverage and receive additional federal funding, implement two separate Medi-Cal checkwrite delays (occurring in July 2004 and June 2005), reflect a one-year moratorium on the certification of new Adult Day Health Centers as Medi-Cal providers, and expand audits and anti-fraud efforts.

**Supplemental Security Income/State Supplementary Payment (SSI/SSP) Program**—\$37.7 million General Fund savings related to delaying the January 2005 cost of living adjustment (COLA) until April 2005 and implementing Supplemental Security Income advocacy efforts.

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### **Maximize Federal Funding**

Securing California's fair share of federal funds is crucial in order for California to regain its financial standing. The HHS Budget includes \$795.8 million in new federal funds, penalty relief and deferrals:

**In-Home Supportive Services (IHSS)**—\$216.5 million General Fund from seeking an Independence Plus Waiver to obtain federal funding for the State-



only IHSS Residual Program. The Independence Plus Waiver is anticipated to bring in \$340.4 million in federal funds for California's IHSS program annually. These additional federal funds are estimated to result in General Fund savings of \$216.5 million annually and provide savings of \$123.9 million annually to counties for their share of the IHSS program.

**Food Stamp Error Rate Sanction**—California was sanctioned by the federal government for federal fiscal years 2000, 2001, and 2002 in the amount of approximately \$187 million because county error rates for Food Stamp Program eligibility and benefit determination were 17.4 percent, well above the national average of 8.7 percent. Based on State regulations, counties were to have funded 90 percent of this sanction while the State would have been responsible for the remaining 10 percent.

As a result of program improvement initiatives taken by the State and Counties — including more intensive supervisory case reviews and providing additional, more focused training at the local level — the State Food Stamp error rate has declined significantly from 17.4 percent in federal fiscal year 2001 to under 8 percent. The recent introduction of the Electronic Benefit Transfer System, which uses plastic debit cards to distribute program benefits, is also helping to improve program efficiency and accuracy.

The success in greatly reducing the error rate has allowed California to reach an agreement with the U.S. Department of Agriculture that would virtually eliminate the amounts paid as a result of the sanction. The settlement will mitigate the State's net liability by first waiving the original penalty. In return, California will be required to take steps such as placing reinvestment funds at-risk during performance evaluations and relinquishing claims to certain federal performance bonuses and payments. Should future performance evaluations indicate target error rates are not being met, the State will be obligated to use those reinvestment funds to further improve the program.

**Child Support Alternative Federal Penalty Relief**—Due to progress and a good-faith effort in implementing a single, statewide automated child support system, the federal government approved a deferral of \$220 million penalty until State fiscal year 2005-06.

As a result of California's delay in implementing a single, statewide-automated child support system, the federal government had levied significant federal penalties against the State. As of June 30, 2003, the State has paid cumulative penalties of \$562 million, which is 30 percent of the prior federal fiscal year expenditures on the Child Support Program. The federal penalty is estimated to be \$195 million in 2003-04 and is estimated to increase to \$220 million in 2004-05 due to increased expenditures for the development of a statewide-automated child support system.

The State is aggressively pursuing development and certification of a statewide-child support automation system in an attempt to reduce or eliminate future penalties.

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## Health and Human Services Agency

The Budget includes \$3.4 million (\$1.9 million General Fund) and 27.0 positions at the Health and Human Services Agency (Agency) to provide oversight and coordination to its 12 constituent departments and one board. This funding level will nearly eliminate the Agency's past practice of borrowing positions from constituent departments. In addition, the Agency's budget will accurately reflect the resources necessary to manage the Health and Human Services departments and support a proactive, comprehensive leadership and oversight function, with an emphasis on eliminating duplication and fragmentation among Agency departments.

**Cost Containment Commission Staff**—The Budget provides \$364,000 from the Managed Care Fund and 2.0 positions to support the activities of the California Quality Control and Cost Containment Commission (Commission). These positions will support the Commission's ability to research and recommend appropriate and timely strategies for promoting high-quality healthcare and containing healthcare costs.

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## Department of Health Services

The Budget includes \$36.3 billion (\$12.6 billion General Fund) for the Department of Health Services (DHS), an increase of \$4.2 billion (\$2.0 billion General Fund) above the revised 2003-04 budget level. DHS administers a broad range of public health programs and the California Medical Assistance Program (Medi-Cal), which provides health care services to qualified low-income persons and families.

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### Public Health Programs

**West Nile Virus**—The Budget provides \$977,000 General Fund and authorization for 2.0 positions to develop a long-term, strategic plan and program to coordinate and maintain surveillance, prevention, and control of the spread of West Nile virus. Based on incidence rates and distribution patterns in the United States since 1999, the Centers for Disease Control and Prevention predicts that California will experience a significant increase in West Nile virus transmission in 2004. As of July 2004, 45 human cases of West Nile virus have been confirmed in California. In order to respond to this epidemic, this proposal will expand the state's capacity to provide technical assistance, pesticide efficacy testing, and on-site training to local mosquito abatement districts regarding surveillance, education, case investigations, outbreak response, and disease prevention.

**AIDS Drug Assistance Program**—The Budget provides total funding of approximately \$234.2 million (\$66.5 million General Fund) to fully fund projected caseload and eliminate enrollment caps for the AIDS Drug Assistance Program (ADAP) in 2004-05. Since 1987, the ADAP has provided drugs to low-income, HIV/AIDS-infected individuals who lack medical insurance. The ADAP provides financial assistance to these individuals to purchase the often extraordinarily expensive, but



life sustaining, drugs necessary to help manage the disease. Based on an average cost per case for the year 2003-04 of \$7,864, a total of 29,781 cases will be served in 2004-05.

**Therapeutic Monitoring Program**—The Budget includes \$4 million General Fund, an increase of \$3 million, to provide viral load testing and HIV resistance testing in the Therapeutic Monitoring Program (TMP) for HIV/AIDS infected individuals enrolled in ADAP. Viral load testing measures the extent of HIV in the blood, and HIV resistance testing measures the degree to which an individual's HIV has become resistant or less sensitive to medications. These tests allow clinicians to monitor patient responses to treatment, and help to ensure that patients are receiving effective drug therapies.

**Newborn Screening Program**—The Budget includes \$2.7 million from the Genetic Disease Testing Fund to expand the Newborn Screening program to include Tandem Mass Spectrometry. Currently, the program, which screens over 99 percent of all newborns, tests for four treatable genetic diseases [Phenylketonuria (PKU), congenital hypothyroidism, galactosemia, and hemoglobin disorders including sickle cell anemia]. Tandem Mass Spectrometry will provide for screening of an additional 30 treatable genetic diseases. Early detection of these genetic diseases allows for early treatment, which can help prevent or minimize mental retardation and other severe health problems. In addition, it is anticipated that this expansion will also result in significant future cost avoidance in Medi-Cal, special education, and developmental services.

**Five-percent Provider Rate Reduction Exemption**—The Budget includes \$5.6 million (\$4.2 million General Fund, \$1.3 million federal funds) to restore funding for the California Children's Services program, the Genetically Handicapped Persons Program, the Child Health and Disability Prevention Program, the Multi-purpose Senior Services Program, and the Breast and Cervical Cancer Early Detection Program. The Budget Act of 2003 included a five-percent provider rate reduction, which reduced payments to providers in these programs by a total of \$5.6 million and took effect on January 1, 2004. The 2004-05 budget exempts providers in these programs from the 5 percent provider rate reduction, and restores the funding. It is likely that this action will increase the number of physicians participating in these programs, and will ensure that patients receive the standard of care necessary to fight their special illnesses.

**Community Challenge Grants**—The Budget includes \$20 million to continue funding for Community Challenge Grants. This program promotes responsible parenting and reduces the number of teenage and unintended pregnancies and assists in offsetting future costs associated with welfare dependency. Federal Temporary Assistance for Needy Families (TANF) block grant funding through the Department of Social Services has been continued, resulting in the opportunity to continue the Community Challenge Grants.

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## MEDI-CAL

The Budget includes total Medi-Cal expenditures of \$33.0 billion (\$11.9 billion General Fund), an increase of \$4.3 billion (\$2.0 billion General Fund) over the revised 2003-04 Budget. The average monthly Medi-Cal caseload is expected to be 6,695,000 beneficiaries in 2004-05. This represents an increase of 2.1 percent above the revised 2003-04 Budget level.

The Administration believes that California must redesign Medi-Cal to allow the State to provide critical health care services to our most needy residents in a manner that is more logical and efficient for beneficiaries and taxpayers. Any such reforms, however, will take at least one year to implement, so the Budget does not include any savings attributed to Medi-Cal redesign. Independent of the Medi-Cal redesign process, the Budget includes the following strategies to better manage and control program costs over the long term:

**Medi-Cal Rate Increase for County Organized Health Systems (COHS)**—To maintain the viability of the Medi-Cal COHS health plans, the Budget includes \$15.2 million General Fund for a 3-percent increase in the Medi-Cal reimbursement rate paid to these health plans.

**Pharmacy Reimbursement Realignment**—The Budget includes General Fund savings of \$52.1 million to realign fee-for-service pharmacy reimbursement more closely with the pharmacy industry's cost structure. Beginning September 1, 2004, Medi-Cal will reimburse pharmacists for drug ingredient costs at the average wholesale price minus 17 percent, and will set the professional dispensing fee at \$8.00 for long-term care prescriptions and \$7.25 for all other prescriptions.

**Quality Improvement Assessment Fee on Medi-Cal Managed Care Plans**—The Budget includes the Administration's proposal to allow the Department of Health Services to assess a 6 percent quality improvement fee on all lines of business within the Medi-Cal managed care plans as a vehicle for leveraging and receiving additional federal funding. This assessment fee will generate additional federal funding for the health plans, and net State savings of \$9.0 million General Fund.

**Medi-Cal Checkwrite Delays**—The Budget includes one-time General Fund savings of \$286.9 million, due to two separate Medi-Cal checkwrite delays. The first delay will occur in July 2004, and will be ongoing. The second delay will occur in June 2005, reflecting the delay of the last checkwrite to the next fiscal year. This will minimize the impact on providers by delaying only one payment and not delaying all payments an additional week.

**Adult Day Health Center Reform**—The Budget includes General Fund savings of \$3.3 million to reflect a one-year moratorium on the certification of new Adult Day Health Centers as Medi-Cal providers. The moratorium will allow exceptions for certain classes of centers, such as federally qualified rural health clinics, and for centers in unserved or underserved counties.



**Non-Contract Hospital Audits**—The Budget includes 20.0 new positions and General Fund savings of \$3.1 million for expanded audits of hospitals that receive cost-based reimbursement from Medi-Cal. These audit efforts are expected to generate annual General Fund savings of \$8.8 million beginning in 2005-06.

**Various Anti-Fraud Efforts**—The Budget includes General Fund savings of \$4.2 million to reflect new Medi-Cal anti-fraud efforts. The DHS will restrict electromyography and nerve conduction tests to specially trained providers, send mid-year billing data to Medi-Cal providers with suspicious billing patterns, and confirm receipt of services with selected Medi-Cal beneficiaries.

**Treatment Authorization Request (TAR) Workload**—The Budget includes 18.0 new positions and \$512,000 General Fund to address the increased workload related to evaluating TARs received from Medi-Cal providers.

**Federally Qualified Health Centers (FQHCs) Rate Adjustments**—FQHCs, which are community health centers in medically underserved areas, provide critical health services for low-income families. The Budget includes \$69.7 million General Fund to provide rate adjustments for FQHCs, including the costs of managed care differential payments, additional payments for services to Medicare crossover beneficiaries, and scope-of-service changes authorized by the federal Benefits Improvement and Protection Act of 2000.

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## Managed Risk Medical Insurance Board

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### Healthy Families Program

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The Budget includes Healthy Families Program (HFP) expenditures of \$871.5 million (\$318.9 million General Fund), an increase of \$78.4 million (\$28 million General Fund) above the revised 2003-04 budget level. Year-end caseload is expected to reach 774,100 children, compared to 714,400 in 2003-04.

**HFP Premium Increase**—The Budget includes \$750,000 (\$263,000 General Fund) for administrative costs to implement increased premiums for all children in the program with family incomes above 200 percent of the Federal Poverty Level (FPL), effective July 1, 2005. Subscribers at all income levels will be offered the same benefit package, but subscribers above 200 percent of the FPL will be charged higher monthly premiums for program benefits. The monthly premiums will be increased from \$9 per child and \$27 for three or more children to \$15 per child and \$45 for three or more children. Even with this proposed premium increase, families' total out-of-pocket costs (premiums and co-payments) will not exceed the 5 percent maximum allowed under federal regulations.

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## **Department of Developmental Services**

The Budget includes \$3.5 billion (\$2.2 billion General Fund) for the Department of Developmental Services, an increase of \$264.9 million (\$256.4 million General Fund) above the revised 2003-04 Budget level. Total caseload is expected to reach 202,562 consumers, compared to 193,476 in 2003-04.

**Developmental Centers**—The Budget provides \$705.2 million (\$378.7 million General Fund) for the Developmental Centers, a net decrease of \$9.4 million from the revised 2003-04 budget level, primarily due to a decreasing population and removal of one-time funding. The budget supports a population of 3,307, a decrease of 139 consumers from 2003-04.

**Regional Centers**—The Budget includes \$2.8 billion (\$1.8 billion General Fund) for Regional Centers, a net increase of \$270.1 million (\$235.8 million General Fund) above the revised 2003-04 level. This includes support for the transfer of the Habilitation Services Program from the Department of Rehabilitation on July 1, 2004. The Budget supports a population of 199,255, an increase of 9,225 consumers above 2003-04. The Budget also reflects General Fund savings of \$7 million from an unallocated reduction in the Regional Centers purchase of services budget.

**Family Cost Participation**—The Budget provides \$838,000 General Fund for Regional Centers operations to reflect the implementation of the Family Cost Participation Program. This program will require parents who meet specified criteria to financially contribute to the cost of services provided to their child. This program is estimated to save \$570,000 in 2004-05 and \$3.1 million in 2005-06.

**Agnews Transition**—The Budget includes \$11.1 million to develop community-based living options for placement of consumers in the community due to the planned closure of Agnews Developmental Center.

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## **Department of Mental Health**

The 2004-05 Budget includes \$2.6 billion (\$962.6 million General Fund) for the Department of Mental Health, an increase of \$243.4 million (\$68 million General Fund) above the revised 2003-04 Budget level.

**State Hospitals**—The Budget includes \$733.1 million (\$587.1 million General Fund) for State hospitals, a net increase of \$48.1 million (\$46.8 million General Fund), or 7 percent above revised 2003-04 expenditures. This funding will support a total population of 5,003 patients, an increase of 282 patients from the 2003-04 population level.

**Early Mental Health Initiative**—The Budget includes \$10 million Proposition 98 General Fund for the Early Mental Health Initiative. Of this amount, \$5 million is one-time funding from the Proposition 98 Reversion Account that will support a new round of grants to local education agencies for promoting social and emotional development of children in kindergarten through grade 3.



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**Coalinga State Hospital**—The Budget reflects \$9.5 million General Fund savings from delaying the activation of Coalinga State Hospital by one month to September 2005.

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## **Department of Aging**

The 2004 Budget Act provides a total of \$185.3 million (\$35.0 million General Fund) for the Department of Aging. The Governor's Budget originally proposed to increase flexibility and improve the efficiency of program administration by implementing a block grant for various programs that serve the elderly, in order to achieve a 5 percent budget reduction. The block grant proposal was not included in the 2004 Budget Act, and funding for the programs has been restored to previous levels.

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## **Health and Human Services Agency Data Center**

In 2004-05, the Administration will work toward the consolidation of the State's two general-purpose data centers, the Stephen P. Teale Data Center and the Health and Human Services Data Center, as authorized by Control Section 15.00 of the 2004-05 Budget Act. Control Section 15.00 also authorizes the transfer of \$3.5 million from the Teale Fund reserves to the General Fund, consistent with the provisions of Chapter 225, Statutes of 2003, which required the Administration to consider consolidation of the State's data centers.

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## **Department of Social Services**

**California Work Opportunity and Responsibility to Kids**—The Budget includes total California Work Opportunity and Responsibility to Kids (CalWORKs) expenditures of \$6.7 billion, which includes \$5.2 billion for CalWORKs program expenditures within the Department of Social Services budget, \$1.3 billion in other programs, and \$171.1 million for a CalWORKs program reserve. Other programs include the Statewide Automated Welfare System, Child Welfare Services, California Food Assistance Program, State Supplementary Payment, California Department of Education child care, California Community Colleges child care and education services, Department of Child Support Services disregard payments, and county expenditures. Caseload growth is continuing to flatten after many consecutive years of decline. The revised caseload projections are 474,000 cases in 2003-04, and 473,000 cases in 2004-05.

**CalWORKs Employment Services**—The Budget continues to invest in employment services that allow recipients to move off of aid and into sustainable employment. The Budget includes an augmentation of \$191.9 million for employment services in 2003-04 and \$241.9 million in 2004-05.

**Community Challenge Grants**—The Budget includes the transfer of \$20 million federal Temporary Assistance for Needy Families (TANF) Block Grant funds to the



Department of Health Services to fund Community Challenge Grants in 2004-05. By promoting responsible parenting and reducing the number of teenage and unintended pregnancies, this program assists in offsetting future costs associated with welfare dependency.

**Strengthening Work Participation Requirements**—The Budget includes CalWORKs reforms that require families to participate in at least 20 hours of core work activities per week while allowing for necessary educational activities that are focused on obtaining employment. Enhancing work participation requirements will help to move families quickly into employment and off of aid. Through employment, families will become less reliant on aid and program costs will be reduced.

**Prioritize Funding to Move Recipients into Sustainable Employment**—To adhere to the policy of maintaining program costs within the TANF Block Grant and TANF maintenance-of-effort level, the Budget prioritizes funding to invest in services that enable recipients to leave aid and become self sufficient. For example, the Budget suspends the July 2004 CalWORKs grant COLA for three months in 2004-05. The funds saved by suspending the COLA are used to provide valuable employment services and child care that enable families to leave aid sooner. In addition, families would continue to be eligible for Food Stamps and Medi-Cal. Finally, the CalWORKs assistance payment structure continues to reward working families by allowing them to retain earnings in excess of twice the grant amount and still remain enrolled in the program.

**Foster Care Reform**—The Budget provides \$1.1 billion (\$518.6 million General Fund) for foster care grants and administration. General Fund expenditures in the Foster Care Program have grown by 23 percent from 1998-99 to the 2003 Budget Act, while program caseload has declined by 9 percent during the same period. The primary reason for the cost growth has been increased placements in higher-cost Foster Family Agencies (FFA) and group homes. To curtail growth in program expenditures and to improve outcomes for children, the Budget includes a series of ongoing and new program reforms that will achieve anticipated savings of \$22 million General Fund in 2004-05:

A number of ongoing current reforms initiated by the Adoptions and Safe Families Act, California's Program Improvement Plan, and the new California Child Welfare Outcomes and Accountability System (Chapter 678, Statutes of 2001 [AB 636]) have generated improved prevention strategies, reducing the need for placement of children in out-of-home care, and shortened the lengths of stay in placement. These ongoing efforts, which include "Family-to-Family", now implemented in 23 counties, and the development of tools and processes associated with the Child Welfare Services Redesign, along with other programmatic efforts, are projected to save \$17.3 million General Fund in the budget year.

Two new reforms will achieve program simplification and operational efficiencies in the administration of the Foster Care Program. The Budget reduces the frequency of redetermination of federal foster care eligibility from every six months to every



year, consistent with federal law, and also eliminates Group Home and FFA financial audit cost reimbursements for small providers. These new reforms will result in savings of \$4.7 million General Fund in 2004-05.

**Community Care Licensing Fees**—The Budget includes increased fees for licensed community care facilities, which will generate additional fee revenue of \$5.8 million. This fee increase is designed to more closely align revenues with the cost of licensing functions. Specifically, the proposal would increase annual and application fees for certain facilities, and establish new fees for orientation sessions, monitoring corrective action plans, and late payments. Total community care licensing fees are estimated at \$20.8 million for 2004-05.

**In-Home Supportive Services**—General Fund expenditures in the In-Home Supportive Services (IHSS) program are projected to be \$1.2 billion - an increase of \$41.1 million or 3.7 percent from 2003-04.

Given the State's severe fiscal constraints, and to control the unsustainable growth of costs in the IHSS program, the Budget includes several measures to insure the quality of services provided while reducing the cost of providing services in the IHSS program. The Administration anticipates approval of its application for a federal Plus Waiver to obtain federal funding for the program in lieu of eliminating the IHSS Residual Program. Currently, 80 percent of IHSS recipients are eligible for federal matching funds, and the waiver would provide eligibility to the remaining 20 percent, which will result in annual General Fund savings of \$216.5 million.

The Budget also establishes an IHSS Quality Assurance and Fraud Prevention Program. This program, comprised of both state and county quality assurance units, will enable the continued operation of the In Home Supportive Services program and ensure the quality of necessary services provided to individuals through implementation of:

- Uniform guidelines, developed with input from stakeholder groups including recipients, to insure that individuals receive appropriate services regardless of where they live or who conducts their needs assessment. The guidelines will insure individual needs are addressed.
- Safeguards to ensure recipients continue to choose providers who have not been convicted of abuse, neglect or government program fraud.
- Efforts to maximize program available resources by eliminating duplicate payments, seeking reimbursement from third parties, and to ensure recipients and providers have a mechanism to report fraud.

The implementation of IHSS Quality Assurance efforts is estimated to result in General Fund savings of \$11.4 million in 2004-05.

**Supplemental Security Income/State Supplementary Payment Program**—Total General Fund expenditures for the Supplemental Security Income/State

Supplementary Payment (SSI/SSP) program are projected to be over \$3.3 billion, an increase of \$328.1 million from 2003-04. The receipt of \$238.1 million in federal funding in 2003-04 accounts for the majority of this increase. This one-time federal funding resulted from the Federal Fiscal Relief Funding, Jobs and Growth Tax Relief Reconciliation Act of 2003. Program caseload is estimated to increase to 1.2 million recipients, a 2.4 percent increase over the 2003-04 projected level.

The Budget includes the January 2005 federal COLA of 2.2 percent to SSI/SSP recipients. However, given the State's severe fiscal constraints, the State COLA of 2.8 percent for SSI/SSP recipients will be suspended until April 2005. This will result in General Fund savings of \$34.6 million in 2004-05. Even so, California's SSI/SSP payment standards continue to be the highest among the nation's ten most populous states.

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## **Department of Community Services and Development**

**Naturalization Services Program**—The Budget allocates funding of \$1.5 million General Fund for the Naturalization Services Program, which provides funding to local government and community-based organizations to assist immigrants in obtaining citizenship. This funding will enable naturalization services to be provided to approximately 4,300 individuals in 2004-05.

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## **Business, Transportation, and Housing**

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### **Business, Transportation and Housing Agency (BTH)**

The BTH Agency budget is increased by \$600,000 (General Fund) in 2004-05 for the purposes of developing an information technology project to create efficiencies in the film permitting process for the California Film Commission. The Commission's primary responsibility is to provide permits for film companies to utilize State property as settings for productions of any size. This permitting process requires coordination between various state agencies including the California Highway Patrol, the Department of Forestry, and the State Fire Marshal to ensure that safety and security precautions are properly maintained on State property. This new system is anticipated to reduce the time required to process a film permit which is expected to assist in encouraging film companies to keep production projects instate, thereby retaining jobs for Californians.

The Agency budget also includes \$530,000 for the Office of Military Support, previously known as the Office of Military Base Retention and Reuse. These funds will assist in efforts both in Washington D.C. and within California to retain federal military installations throughout the state related to the 2005 federal Base Realignment and Closure (BRAC) round.



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## **Department of Housing and Community Development (HCD)**

HCD's 2004-05 General Fund expenditures will be 12.5 percent less than the General Fund expenditures in the prior year. This reduction occurs even though population and inflation factors are estimated to increase by about 4.5 percent between 2003-04 and 2004-05 because of the availability of alternative resources made available from the Housing and Emergency Shelter Trust Fund Act of 2002.

In 2004-05, the HCD will allocate \$427.5 million in funds from the Housing and Emergency Shelter Trust Fund Act of 2002, authorized by Proposition 46 and approved by the voters in November 2002. These funds will be used for the development of housing for special needs populations, farm workers, and low-income families, as well as to provide capital development funding for emergency shelters and incentives for local communities to increase affordable housing for all Californians.

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## **Department of Transportation (Caltrans)**

The Budget includes nearly \$9.3 billion in expenditures by the Department of Transportation (Caltrans) and 21,350 personnel years, including nearly \$1.1 billion for programs that assist local governments in constructing and operating highway, road, and transit systems, and nearly \$3.8 billion in capital outlay expenditures for state highway construction projects.

**Transportation Funding Improves**—The Budget and accompanying legislation (Chapter 91, Statutes of 2004[AB 687]) makes \$1.397 billion in funding available for transportation through early repayment of prior transportation loans. This infusion of funding is accomplished by dedicating \$1.214 billion in bond proceeds resulting from the Tribal-State gaming compacts between five tribes and the State, as well as transferring \$140 million of “spillover” revenues and providing \$43 million in General Fund for early loan repayments.

The transportation funding package will be allocated to provide \$453 million to the Transportation Congestion Relief Program, \$477 million to the State Highway Account and \$275 million to the Public Transportation Account for projects, and \$192 million to be allocated on a formula basis to cities and counties for local streets and roads rehabilitation and restoration projects.

**Transportation Investment Fund Transfer**—Legislation accompanying the Budget provides a suspension of Proposition 42 gasoline sales tax money transfers to the Transportation Investment Fund (TIF) for a General Fund savings of \$1.2 billion. The suspension of TIF funding was made pursuant to Article XIX B of the California Constitution which allows for a full or partial suspension of the Proposition 42 TIF transfer upon a proclamation of the Governor that the transfer of the revenues would result in a significant negative fiscal impact on the range of function of government funded by the General Fund, and enactment by the Legislature by a two-thirds vote of statutes that authorizes the suspension. The suspension is to be

repaid by June 30, 2008. AB 687 also allocates bond proceeds for early repayment of both the 2004-05 as well as the 2003-04 TIF suspension if additional compacts are signed with securitization provisions.

**Grant Anticipation Revenue Vehicles Bonds**—The Budget anticipates the continued use of Grant Anticipation Revenue Vehicle (GARVEE) financing to infuse funds for transportation projects. Included in the Budget is the requirement to provide notice and a report prior to exceeding an additional \$800 million in new GARVEE allocations to ensure the prudent management of long-term highway funding commitments.

**Revenues to the General Fund**—Revenues to the General Fund include a transfer of \$107.6 million from non-restricted sources, such as the sale of surplus property, to the extent the transfer does not jeopardize future federal funds.

**Special Transportation Programs**—Revenues to the Public Transportation Account from fuel sales tax increased by \$31.9 million resulting in increased funding of \$15.9 million for local transit projects.

**High-Speed Rail Authority**—Chapter 71, Statutes of 2004 (SB 1169), defers the vote on the Safe, Reliable High-Speed Train Bond Act for the 21st Century from November 2004 until November 2006. This deferral is in response to the Administration's January Budget proposal.

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## **California Highway Patrol (CHP)**

**Staffing**—The 2004-05 Budget includes an augmentation of \$28 million from the Motor Vehicle Account to restore reductions related to Control Section 4.10 of the 2003 Budget Act and to fund cost increases resulting from bargaining unit agreements. This augmentation will provide sufficient funding to permit the CHP to fill 270 existing positions on a full-time basis in 2004-05.

**Homeland Security**—The 2004-05 Budget includes \$23.1 million in funding for response to alerts of potential terrorist attacks. This funding is used for officer overtime during heightened levels of national security, during which the CHP provides increased protection of sensitive public facilities, as well as localized events where intelligence indicates the possibility of terrorist activity. It also provides funds to enhance the State's ability to coordinate the intelligence coordination and communication efforts of federal, state and local law enforcement.

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## **Department of Motor Vehicles (DMV)**

The 2004-05 Budget includes a \$16.9 million augmentation for increased workers' compensation, health benefits, and Industrial Disability Leave costs. Fully funding these costs permits the DMV to maintain the equivalent of about 400 positions that assist customers in field offices.



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## Local Public Safety

**Citizens' Option for Public Safety/Juvenile Justice grants**—\$100 million is provided to cities and counties for front-line law enforcement, county jail operations, and district attorneys. An additional \$100 million is authorized for county juvenile justice programs.

**Booking Fees**—The enacted Budget includes continued funding of \$38.2 million to reimburse cities and special districts for fees paid to counties to book prisoners into the county jail. In subsequent years, this reimbursement will be eliminated and the fees will be reduced by 50 percent.

**Small/Rural Sheriffs**—The Budget includes \$18.5 million to provide grants of \$500,000 each to county sheriffs of 37 specified small and rural counties for supplemental public safety funding.

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## Corrections and Law Enforcement

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### Department of Corrections (CDC)

The Administration is committed to improved community protection and fiscal accountability at the Department of Corrections.

**Community Protection through Parolee Accountability**—The State's goal is to improve public safety and reduce victimization by lowering the rate of recidivism among parolees. The Budget includes additional resources to add tools to law enforcement and parole agents to adequately supervise parolees by expanding the range of sanctions for parolees and enhancing services where appropriate.

More specifically, CDC will implement programs that will increase the accountability of parolees in California's Parole System. Parole policies will promote effective pre-release planning, re-entry transition into the community, supervision and enforcement strategies, and swift and appropriate sanctions for parole violations.

In addition to the initial step of adding tools for law enforcement and parole agents, CDC will evaluate the existing delivery of academic and vocational education, treatment programs, as well as in-prison job opportunities, to ensure that these programs are predicated upon practices proven to improve the re-entry success rate of inmates when they eventually are released to parole.

As a result of these changes, the Budget assumes a savings of \$86.8 million associated with a reduction in parole recidivism.

**Fiscal Accountability**—In order to ensure accountability is real and achievable, CDC has taken the necessary steps to provide the wardens and fiscal managers with the necessary tools to operate the prisons within the Department's appropriation. CDC reconciled its Post Assignment Schedule to the approved budget, and

either eliminated unauthorized positions or came through the Budget process to obtain funding for required, but unfunded activities.

In addition, funding will be allocated to the institutions consistent with both the cost of the authorized level of positions and the estimated expenditures for Operating Expenses and Equipment, based on historical expenditure patterns. Using this process, the institutions will have allotments that are more accurately aligned with actual expenditures.

In addition to the steps taken to achieve fiscal accountability, the Budget includes a variety of program enhancements, efficiencies, and a reduced level of funding for employee compensation that will achieve a savings of \$241.7 million. Without these reductions, the CDC budget would have grown to \$6.06 billion. Instead, the Budget includes \$5.82 billion General Fund for CDC, which is a reduction of 4.2 percent.

**Operational Efficiencies**—The Budget reflects a savings of \$35.3 million due to reducing energy expenditures, consolidating the purchase of some correctional equipment and various goods, the elimination of positions and streamlining various processes at headquarters, and savings associated with the need to only train one class of cadets at the Basic Correctional Officer Academy.

**Employee Compensation**—The Budget reflects a savings of \$62.5 million as a result of renegotiating the collective bargaining agreement with Bargaining Unit 6.

**Medical Improvements**—The Budget reflects a savings of \$36.9 million associated with using CDC physicians to perform liver biopsies instead of contracting for this service, modifying prescription practices for certain high-cost drug categories without compromising quality-of-care standards, using Nurse Practitioners to perform certain mental health functions, implementing the recommendations of the Bureau of State Audits regarding contract medical practices, and improving contract rates for emergency medical services.

Consistent with the Administration's commitment to provide fiscal accountability the Budget includes specific funding to reflect the true cost of the required activities of the Department. The significant issues include:

**Post Relief**—\$99.5 million to increase the budgeted relief factors for posted positions to allow employees in posted positions the opportunity to receive training, take accrued time off, reduce the liability for excess leave balances, and reduce staff overtime.

**Administrative Segregation Overflow**—\$16.8 million to establish Administrative Segregation units at those institutions that show an ongoing need for additional beds. Additionally, funding will be provided to headquarters to address overflow needs on a case-by-case basis. Also, the Department will develop a strategy to more effectively use Administrative Segregation and Security Housing Unit beds.



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**Medical Guarding and Transportation**—\$18.2 million to provide proper staffing and funding for guarding and transportation of inmates in need of medical attention outside of the prisons.

**Valdivia Remedial Plan**—\$22.2 million to provide sufficient staffing and resources to implement the remedial plan, required by *Valdivia v. Schwarzenegger*, which will enhance the provision of due process to parolees held on suspicion of violation.

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## General Government

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### State Trial Court Funding

The Budget includes \$1.208 billion General Fund, and reflects a \$75 million General Fund unallocated reduction and a \$2.3 million General Fund reduction for savings associated with the elimination of juror pay for government employees. Without these reductions, the State Trial Court Funding General Fund budget would have been \$1.285 billion, or 6.4 percent higher.

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### Surplus Property

The budget includes \$75 million General fund revenue from increased sales from the State's underused and underutilized properties. This will result from the suspension of various requirements for one year relating to how the State disposes of its surplus properties in order to achieve greater General Fund resources.

Local governments will be required to notify the State of their interest in purchasing the property within 60 days of receiving notification of the property's availability and complete the sale within 90 days of receiving notification. If the sale is not completed within this timeframe, the State will then offer the properties for sale to private entities or individuals.

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### Office of Homeland Security

The Budget reflects an increase of \$2.0 million Federal Funds and 13.0 positions to establish and maintain the Office of Homeland Security (OHS). The mission of OHS is to develop and coordinate a comprehensive State strategy that includes prevention, preparedness, and response/recovery. The Office also serves as the State Administering Agent for federal homeland security grants and as the primary liaison with the U.S. Department of Homeland Security. Additionally, OHS serves as an advocate for local public safety agencies throughout California with respect to homeland security issues.



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## **Local Government**

Historically, the State has had significant control over local government revenues. Due to its ability to allocate property tax revenues, the State in the early 1990's chose to allocate additional property tax to schools in order to reduce the State General Fund's obligation for education funding. This significantly reduced the amount of property tax revenues going to cities, counties, and special districts.

This budget makes an historic change by proposing constitutional protection for over \$25 billion of local revenues. If the voters approve Proposition 1A (SCA 4) in November, the State could not reduce local governments' share of the property tax below current levels. In a fiscal emergency, the State could borrow up to eight percent of local property tax revenues, provided the amount borrowed would be paid back within three years and a number of other conditions are met. In addition, local sales taxes would explicitly be protected and could not be reallocated by the State.

The budget also simplifies the current car-tax relief and makes it permanent. By reducing the rate from 2.0 percent to 0.65 percent and eliminating the confusing "offset" cities and counties will no longer have to rely on the state to backfill lost revenues. Instead, they will receive increased property tax revenues to compensate for the reduction in revenues associated with the car-tax relief.

For 2004-05 and 2005-06, cities, counties and special districts will give up \$350 million each of their property tax revenues, with redevelopment agencies contributing \$250 million, for a total of \$1.3 billion. For helping the state with its current budget problems, local governments will receive permanent constitutional protection for their revenues for all future years, if Proposition 1A is approved by the voters in November.

Proposition 1A will also protect local governments by prohibiting the State from mandating activities on local governments, but deferring payment for these costs. If the State does not provide funding for the activity, the requirement on local governments would be suspended. In addition, the definition of what constitutes a mandate on local governments would be broadened to better reflect when added costs are imposed on local governments.

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## **Resources and Environmental Protection**

The Budget makes cleaning our air and water and preventing the loss of life, property, and environmental damage from catastrophic forest fires a priority. For the first time ever, a permanent dedicated funding source was developed to remove harmful pollutants from the air while providing significant savings to consumers. Additionally, this budget restores funding for fire protection in State Responsibility Areas.

**Carl Moyer Program**—\$30.5 million for the 2004-05 fiscal year and \$61 million in succeeding years for the Carl Moyer Memorial Air Quality Standards Attainment



Program. This program reduces emissions of smog forming pollutants, saves lives, and cuts associated health costs by over a billion dollars per year. In addition to providing funding for enhanced air quality, the new fee structure that supports this program also will reduce consumer inconvenience and cut smog inspection fees paid by consumers by \$48.5 million annually.

**SRA Fees**—\$102.5 million over two years to repeal fees and augment funding for fire protection services in State Responsibility Areas. This funding will prevent increased assessments or reduced fire protection on property owners in many rural areas throughout the state. The Department of Forestry and Fire Protection will continue to protect the public from fires on 31 million acres of non-federal wild-lands.

**CALFED**—\$409 million total state funding for the CALFED Bay-Delta Program. The State has contributed a disproportionate share of total funding for this program over the past three years. However, the State also has made significant progress in securing \$389 million in additional federal contributions for CALFED, which will help ensure that important water supply and environmental restoration programs receive adequate funding.

**Agriculture and Dairy Water Quality Improvement Grants**—\$25 million for the implementation of Agriculture and Dairy Water Quality Improvement grants. This funding will improve agricultural water quality through monitoring, demonstration projects, research, and construction of agricultural drainage improvements. The funding also will be used to reduce pollutants in agricultural drainage water through reuse, integrated management, and treatment.

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## Capital Outlay

The 2004-05 Budget Act includes \$3.16 billion for the statewide capital outlay program. This total does not include funding for the state highway system, the State Water Project, K-12 schools, and state conservancies. The General Fund contributes \$53.5 million of the total, of which \$37.7 million represents new appropriations. Capital outlay funding also consists of \$1.11 billion from Lease Revenue bonds, of which \$166.4 million represents new appropriations, and \$1.84 billion from General Obligation bonds, of which \$1.36 billion represents new appropriations. Finally, some departments receive capital outlay funding through reimbursements, federal funds and special funds.

### Capital Outlay Expenditures

	General Fund	Other Funds	Total
2004-05 New Projects Appropriation	\$4,940	\$786,625	\$791,565
2004-05 Continuing Projects Appropriation	32,720	800,423	833,143
2004-05 Reappropriations	15,835	1,522,216	1,538,051
<b>Total Capital Outlay</b>	<b>\$53,495</b>	<b>\$3,109,264</b>	<b>\$3,162,759</b>

### Total Funding By Agency

Legislative, Judicial And Executive	\$136	\$40,626	\$40,762
State And Consumer Services	0	216,904	216,904
Business, Transportation, and Housing	0	10,551	10,551
Resources	3,626	239,419	243,045
Health And Human Services	629	28,531	29,160
Youth And Adult Correctional	36,897	265,484	302,381
Education	0	78,608	78,608
Higher Education	0	2,065,750	2,065,750
General Government	11,207	163,391	174,598
Capital Outlay Planning	1,000	0	1,000
<b>Total</b>	<b>\$53,495</b>	<b>\$3,109,264</b>	<b>\$3,162,759</b>

**Indian Gaming Compacts**—Five Tribal-State gaming compacts have been amended. The amended compacts delete the 2,000 cap on slot machine devices that can be operated by the tribes, and provide that these tribes will pay license fees on the number of slot machine devices that are added in excess of the existing authorized level. The fees that will be paid on the new devices per the amended compacts, as well as fees that are anticipated to be paid as a result of compacts that are currently being negotiated, are estimated to generate \$300 million General Fund revenue in the budget year. It is anticipated that this revenue will increase as additional compacts are renegotiated.

The amended compacts also provide for additional revenues to be paid by the tribes that will be securitized to provide one-time funds for transportation programs. This funding will provide an early repayment of loans that otherwise were not required to be repaid until future years.

### Retirement and Employee Compensation

**Pension Reform**—The budget reflects a reform to the State's pension retirement system estimated to save approximately \$2.9 billion over the next 20 years. Each new employee hired by the State in Miscellaneous and Industrial retirement categories will contribute to a retirement account for the first two years of service before



the State begins contributing to PERS on their behalf. Employees will have the option of using their contributions to purchase service credit from PERS, withdrawing the contributions, or rolling the contributions into a retirement account of their choice after 48 months. For those employees who elect to purchase service credit, the State will pay the difference between the employees' accumulated contributions and the actuarial cost of the service credit.

**Employee Compensation**—The Budget reflects an augmentation of \$814.7 million (\$404.5 million General Fund) for deferred salary increases and health care premium increases. A total of \$464.1 million (\$167.9 General Fund) is the 2004-05 value of employee salary increases that were scheduled to take effect on July 1, 2003, but were deferred to July 1, 2004 through negotiations with collective bargaining units. The budget includes a savings of \$62.5 million from the renegotiation of the Bargaining Unit 6 contract as well as revisions to health care estimates, which are now expected to be less than estimated in the January 10 budget.

**Rural Health Care Equity Program**—The Budget reflects an increase of \$11.3 million General Fund in 2004-05 due to the extension of the Program's sunset date from January 1, 2005 to January 1, 2008.

**Health and Dental Benefits for Annuitants**—The budget includes a reduction of \$60.5 million General Fund from the amount proposed in the January 10 budget as a result of lower-than-anticipated increases in dental and health care premiums for 2004-05.

**State Teachers' Retirement System (STRS)**—The Budget restores the General Fund payment to STRS that provides for teacher purchasing power maintenance of \$584.9 million in 2004-05. Additionally, the recent valuation of STRS indicated an unfunded liability of 18 percent. Pursuant to Education Code Section 22955(b), the State will make an additional contribution of \$94 million to offset the unfunded liability.

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## Financial Instruments

**Pension Obligation Bonds**—The Budget reflects the State's issuance of pension obligation bonds to fund approximately \$929 million of the State's 2004-05 retirement obligation to the California Public Employees' Retirement System. This will free up an equal amount of General Fund money and the General Fund will be responsible for all future bond redemption costs. The State will make interest-only payments of approximately \$55.8 million from 2005-06 through 2008-09 and \$93.7 million in each fiscal year from 2009-10 through 2024-25.

**2004-05 General Fund  
Budget Summary**  
(Dollars in Millions)

	<b>2003-04</b>	<b>2004-05</b>
Prior Year Balance	\$4,178	\$3,127
Revenues and Transfers	\$74,570	\$77,251
Economic Recovery Bonds	\$2,012	\$ -
<b>Total Resources Available</b>	<b>\$80,760</b>	<b>\$80,378</b>
Expenditures	\$75,621	\$80,693
Transfer to and Use from Deficit Recovery Fund	\$2,012	-\$2,012
<b>Total Expenditures</b>	<b>\$77,633</b>	<b>\$78,681</b>
<b>Fund Balance</b>	<b>\$3,127</b>	<b>\$1,697</b>
<b>Budget Reserves:</b>		
Reserve for Liquidation of Encumbrances	\$929	\$929
Special Fund for Economic Uncertainties	\$2,198	\$768
Prop 98 Reserve		\$302
Non Prop 98 Reserve		\$466



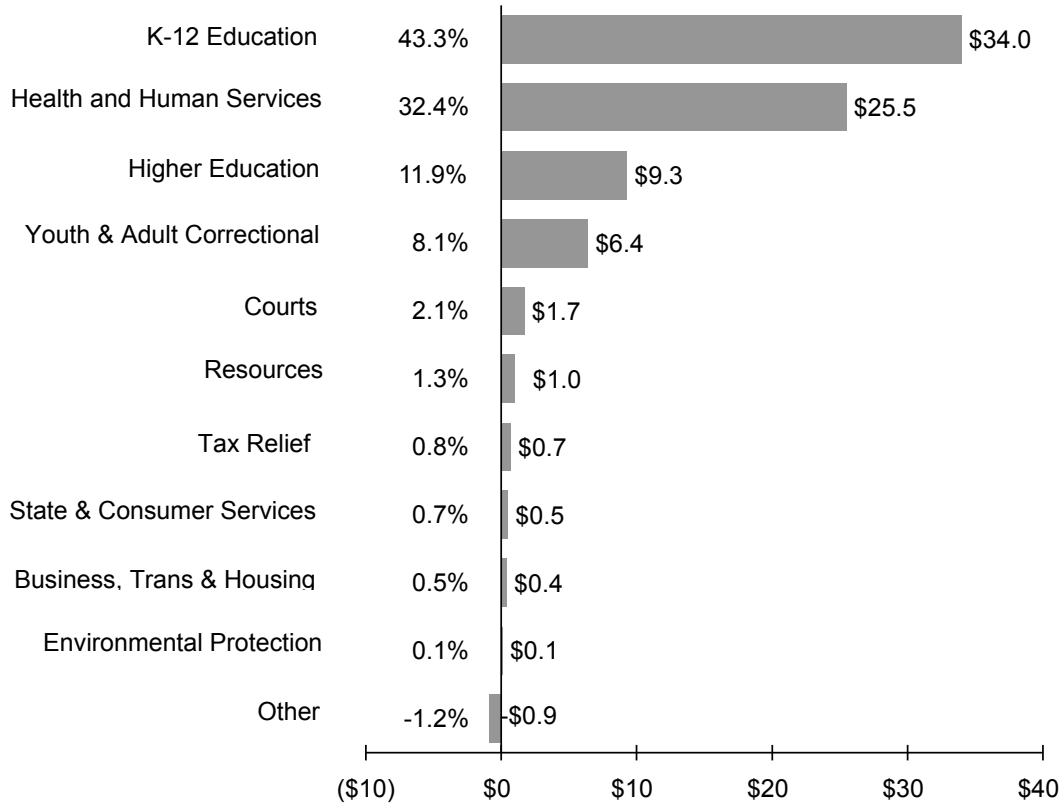
**2004-05 Revenue Sources**  
(Dollars in millions)

	<b>General Fund</b>	<b>Special Funds</b>
Personal Income Tax	\$38,974	--
Sales Tax	25,146	\$3,972
Corporation Tax	7,573	--
Highway Users Taxes	--	3,322
Motor Vehicle Fees	16	3,574
Insurance Tax	2,195	--
Estate Taxes	135	--
Liquor Tax	302	--
Tobacco Taxes	118	917
Other	<u>2,792</u>	<u>9,610</u>
<b>Total</b>	<b>\$77,251</b>	<b>\$21,395</b>

**General Fund Expenditures  
by Agency**  
(Dollars in Millions)

	<b>2003-04</b>	<b>2004-05</b>
Legislative, Judicial, Executive	\$2,549	\$2,730
State and Consumer Services	471	514
Business, Transportation & Housing	516	377
Technology, Trade, and Commerce	6	--
Resources	986	1,020
Environmental Protection	91	69
Health and Human Services	22,969	25,467
Youth and Adult Correctional	5,424	6,392
K-12 Education	29,767	34,049
Higher Education	8,795	9,360
Labor and Workforce Development	112	85
General Government	<u>5,948</u>	<u>-1,382</u>
<b>Total</b>	<b>\$77,634</b>	<b>\$78,681</b>

### 2004-05 General Fund Expenditures (Dollars in Billions)





### 2004-05 Expenditures By Fund (Dollars in Millions)

Function	General Fund	Special Funds	Bond Funds	Total
Education (K-12)	\$34,049	\$60	\$36	\$34,145
Health and Human Services	25,467	5,102	110	30,679
Higher Education	9,360	1,203	1,702	12,265
Business, Transportation and Housing	377	7,152	147	7,676
Courts	1,666	1,144	--	2,810
Tax Relief	668	--	--	668
Local Government Subventions	333	1,707	--	2,040
Youth and Adult Corrections	6,392	2	2	6,396
Resources	1,020	1,655	861	3,536
Environmental Protection	69	824	85	978
State and Consumer Services	514	562	16	1,092
Other	-1,234	4,290	36	3,092
<b>Total</b>	<b>\$78,681</b>	<b>\$23,701</b>	<b>\$2,995</b>	<b>\$105,377</b>

### General, Special, and Bond Funds (Dollars in Millions)

Agency	Legislative Spending Plan	Governor's Vetoes	Enacted Budget
Legislative/Executive	\$1,527	\$0	\$1,527
Courts	2,810	0	2,810
State and Consumer Services	1,093	-1	1,092
Business, Transportation & Housing	7,678	-2	7,676
Resources	3,571	-35	3,536
Environmental Protection	979	-1	978
Health and Human Services	30,718	-39	30,679
Youth and Adult Correctional	6,398	-1	6,397
Education (K-12)	34,149	-4	34,145
Higher Education	12,296	-32	12,264
Other	4,274	-1	4,273
<b>Total</b>	<b>\$105,493</b>	<b>-\$116</b>	<b>\$105,377</b>

\* Numbers may not add due to rounding.



**General Fund Solutions by Categories**  
(Dollars in Thousands)

<b><u>Agency</u></b>	<b><u>2002-03</u></b>	<b><u>2003-04</u></b>	<b><u>2004-05</u></b>	<b><u>Total</u></b>	<b><u>% of Total</u></b>
Cuts	-\$189,256	-\$573,482	-\$3,235,453	-\$3,998,191	28.7%
Cost Avoidance	-517,836	-482,131	-3,424,324	-4,424,291	31.7%
Fund Shift	-6,600	-67,393	-1,489,235	-1,563,228	11.2%
Loans/Borrowing	1,433,400	-203,800	-3,373,026	-2,143,426	15.4%
Transfers/Other Revenues	-385,000	143,691	-1,573,187	-1,814,496	13.0%
<b>Totals</b>	<b>\$334,708</b>	<b>-\$1,183,115</b>	<b>-\$13,095,225</b>	<b>-\$13,943,632</b>	<b>100.0%</b>



**General Fund Solutions by Agency**  
(Dollars in Thousands)

<b>Agency</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>Total</b>	<b>% of Total</b>
Legislative, Judicial, Executive	-\$12,000	-\$2,577	-\$182,604	-\$197,181	1.4%
State and Consumer Services	0	169,593	-484,386	-314,793	2.3%
Business, Transportation, and Housing	0	-42,317	-1,532,845	-1,575,162	11.3%
Technology, Trade, and Commerce	0	-6,600	0	-6,600	0.0%
Resources	-132,200	-36,460	-108,676	-277,336	2.0%
Environmental Protection	0	0	-10,259	-10,259	0.1%
Health and Human Services	-66,940	-52,211	-1,285,457	-1,404,608	10.1%
Youth and Adult Correctional	0	-9,000	-224,783	-233,783	1.7%
K-12 Education (Non Prop 98)	0	-1,590	-170,878	-172,468	1.2%
K-14 Education (Re-Base Prop 98 Growth)	-517,836	-481,105	-2,003,996	-3,002,937	21.5%
Local Government Contribution (ERAF)	0	0	-1,300,000	-1,300,000	9.3%
Higher Education (Non Prop 98)	-46,600	-119,532	-763,076	-929,208	6.7%
Labor Agency	0	-808	-2,818	-3,626	0.0%
General Government	-323,116	-600,508	-1,877,447	-2,801,071	20.1%
Economic Recovery Bonds	1,433,400	0	-2,012,000	-578,600	4.1%
Debt Service Savings (ERAF)	0	0	-1,136,000	-1,136,000	8.1%
<b>Totals</b>	<b>\$334,708</b>	<b>-\$1,183,115</b>	<b>-\$13,095,225</b>	<b>-\$13,943,632</b>	<b>100.0%</b>

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**State of California**  
Governor's Office

I object to the following appropriations contained in Senate Bill 1113.

Item 0555-001-0028—For support of Secretary for Environmental Protection. I reduce this item from \$1,444,000 to \$982,000.

I am deleting the \$462,000 legislative augmentation to assist the metal plating industry in complying with existing state regulations regarding the disposal of hazardous waste containing hexavalent chromium. This reduction is necessary to limit program expansions and provide for a prudent fund reserve in light of the declining balance in the Unified Program Account.

Item 0555-001-0044—For support of Secretary for Environmental Protection. I revise this item by reducing:

- (1) 30-Support from \$10,113,000 to \$8,151,000;
- (5) Amount payable from the Unified Program Account (Item 0555-001-0028) from -\$1,444,000 to -\$982,000;

and by deleting:

- (11.5) Amount payable from the Hazardous Waste Reduction Loan Account (Item 0555-001-0828) (-1,500,000).

I am revising this item to conform to the actions I have taken in Items 0555-001-0028 and 0555-001-0828.

Item 0555-001-0828—For support of Secretary for Environmental Protection. I delete this item and Provision 1.

I am deleting the \$1,500,000 legislative augmentation to assist the metal plating industry in complying with existing state regulations regarding the disposal of hazardous waste containing hexavalent chromium. While certified unified program agencies are intended to assist businesses, it is not appropriate to single out a particular industry for special assistance for failure to comply with environmental rules.

Item 0690-102-0001—For local assistance, Office of Emergency Services.

I am sustaining the \$2,000,000 legislative augmentation related to funding 10 domestic violence programs. This augmentation will ensure services for domestic violence victims are protected in all communities. However, I am directing the Office of Emergency Service (OES) to incorporate these funds into the existing funding for domestic violence shelters and allow the 10 shelters to obtain funding through the grant process currently administered by OES. Providing a separate appropriation for these 10 particular shelters would create an inequitable process, and would allocate more funding per shelter compared to the other 75 shelters that receive funding.

Item 1111-003-0001—For support of Consumer Affairs. I reduce this item from \$450,000 to \$365,000 by reducing:

- (1) 40-Office of Privacy Protection from \$485,000 to \$400,000.

I am deleting the \$85,000 legislative augmentation which would provide funding for the Office of Privacy Protection. Given the fiscal condition of the State, this reduction is necessary to help build a prudent reserve and bring ongoing expenditures in line with existing resources over the longer term.

Item 1760-492—Reappropriation, Department of General Services. I revise this item by deleting Schedule (2.5).

I am eliminating the availability of funding provided to the City of Oakland for the seismic retrofit of the Police Administration Building. Funds have been available since 1994 and the city is still unable to provide the required matching funds to receive the resources. If the city is able to commit the funds in the future, I will reconsider this request.

Item 1880-001-0001—For support of State Personnel Board. I reduce this item from \$3,888,000 to \$3,753,000 by reducing:

- (3) 50.01-Administrative Services from \$2,798,000 to \$2,663,000.

In recognition of potential workload increases associated with the end of the hiring freeze, I am sustaining \$465,000 of this \$600,000 legislative augmentation to provide funding for staff in the Bilingual Services Unit, the Appeals Division, the Examination Services Unit, and for information technology services. I am deleting the \$135,000 for temporary help and related costs. In addition, I am directing the State Personnel Board to develop performance-based measures to evaluate its effectiveness.

Item 2240-105-0001—For transfer to the Emergency Housing and Assistance Fund. I reduce this item from \$5,300,000 to \$4,000,000.

I am reducing the \$1,300,000 legislative augmentation for transfer from the General Fund to the Emergency Housing and Assistance Fund to help build a prudent reserve and bring ongoing expenditures in line with existing resources over the longer term. With these reductions, \$4,000,000 still remains to support the Emergency Housing and Assistance Program (EHAP), which grants funding to local agencies that provide homeless shelter beds and related services.

Item 2240-490—Reappropriation, Department of Housing and Community Development. I delete this item.

I am deleting the reappropriation of \$400,000 in grant funds originally made available in 2001 but never spent by the City of Orange Cove. The 2004-05-budget plan assumes that these funds as well as others that reverted to the General Fund on July 1, 2004, would be available as a resource for the 2004-05 budget.

Item 2600-001-0042—For support of California Transportation Commission. I reduce this item from \$651,000 to \$613,000.

I am reducing this item by \$38,000 to conform to the action I have taken in Item 2660-001-0046.

Item 2600-001-0046—For support of California Transportation Commission. I reduce this item from \$1,000,000 to \$932,000 by reducing:

- (1) 10-Administration of California Transportation Commission from \$1,651,000 to \$1,545,000, and
- (2) Amount payable from the State Highway Account, State Transportation Fund (Item 2600-001-0042) from -\$651,000 to -\$613,000.

I am deleting the \$106,000 legislative augmentation to increase staffing at the Commission to restore a Legislative Deputy position that was eliminated in 2003-04 subsequent to being vacant for one year. Given the fiscal condition of the State, this reduction is necessary to bring ongoing expenditures in line with existing resources over the longer term.

Item 2665-001-0046—For support of High Speed Rail Authority. I reduce this item from \$1,819,000 to \$1,099,000 and by deleting Provision 1.

I am deleting the \$720,000 legislative augmentation for the completion of the final draft of the High Speed Rail Environmental Impact Report (EIR). The Authority has been fully funded to complete the EIR but reports that it redirected a portion of these funds to the draft EIR when required to perform additional work on that document by federal agencies. Given the fiscal condition of the State, this reduction is necessary to bring ongoing expenditures in line with existing resources over the longer term.

I am also revising this item by deleting Provision 1. This provision would have restricted the use of \$300,000 of this item to the legal defense of the environmental documents. By deleting this language I am providing the Authority with the budgetary flexibility it will need to meet its priorities.

Item 3340-001-0001—For support of California Conservation Corps. I reduce this item from \$25,373,000 to \$23,773,000 by reducing:

- (1) 10-Training and Work Program from \$57,256,000 to \$55,656,000.

I am reducing this item by \$1,600,000 and 14 positions for the operation of the Ukiah residential facility. The California Conservation Corps is a valuable program that helps protect the environment and promote leadership skills for young men and women. However, in light of the State's current fiscal condition, the Ukiah residential facility was selected for conversion to a non-residential facility after a thorough review of all facilities because there are two other Corps residential facilities, Leggett and Shasta Pacific, nearby that also provide services to the Ukiah area. After the conversion, 15 corps members and one Corps employee will remain at the facility.

Item 3790-494—Reappropriation, Department of Parks and Recreation. I delete this item.

I am deleting this legislative reappropriation for three local parks projects. I am deleting the General Fund reappropriation for the renovation and repair of the La Palma Community Center. Given the fiscal condition of the State, this reduction is necessary to help build a prudent reserve and bring ongoing expenditures in line with existing resources over the longer term. I am also deleting the reappropriation of Proposition 12 bond funds for the Paxton-Arleta Softball/Soccer Field. This use of Proposition 12 bond funds is inconsistent with the purpose for which the funds were originally appropriated and therefore not eligible for reappropriation. Finally, I am deleting the reappropriation for the Community Build Youth Center. These bond funds were appropriated in the Budget Act of 2000 and more than adequate time has passed for the funds to be expended for this purpose.

Item 3940-001-0001—For support of State Water Resources Control Board. I revise this item by reducing:

- (1) 10-Water Quality from \$387,080,000 to \$386,878,000, and
- (7) Amount payable from the Waste Discharge Permit Fund (Item 3940-001-0193) from -\$55,913,000 to -\$55,711,000.

I am revising this item to conform to the action I have taken in Item 3940-001-0193.

Item 3940-001-0193—For support of State Water Resources Control Board. I reduce this item from \$55,913,000 to \$55,711,000.

I am deleting the \$202,000 legislative augmentation for activities related to the development of statewide septic tank system standards. The State Water Resources Control Board will continue its efforts to develop the standards with the remaining \$287,000 during 2004-05, and will not need the additional resources provided by this augmentation.

Item 4260-001-0001—For support of Department of Health Services. I delete Provision 3 of this item to make a technical correction to the Budget Bill.

Provision 3 in Item 4260-001-0001 refers to provisional language in Item 4260-111-0001 that was removed from the Budget Bill, and is therefore no longer necessary.

Item 4260-001-0890—For support of Department of Health Services. I delete Provision 5.

I am deleting Provision 5, which would require the Department of Health Services (DHS) to include in its application for funding from the federal Centers for Disease Control and Prevention's (CDC) Public Health Preparedness and Responses to Bioterrorism Program a request for the establishment of reporting procedures for low-level radioactive waste. Notwithstanding the merits of reporting low-level radioactive waste, this request is outside the scope of the State's Cooperative Agreement with the CDC. Including this provision in the application will likely delay the availability of federal funds.



Item 4260-101-0001—For local assistance, Department of Health Services. I reduce this item from \$11,728,217,000 to \$11,727,467,000 by reducing:

- (3) 20.10.030-Benefits (Medical Care and Services) from \$28,531,016,000 to \$28,529,516,000;
- (6) Amount payable from the Federal Trust Fund (Item 4260-101-0890) from -\$185,577,411,000 to -\$18,576,661,000;

and by deleting Provision 15.

While I recognize the important services that these pharmacies provide to Californians living with HIV/AIDS, I am reducing this item by \$750,000 and deleting this provision because providing additional Medi-Cal pharmacy compensation to HIV/AIDS clinics would create unacceptable program inequities that will lead to unnecessary litigation against the State. The budget will ensure that those suffering with HIV/AIDS will continue to have access to critically important drugs.

The concept of a reimbursement model that incorporates the features identified in this proposal should be considered as part of an overall analysis of Medi-Cal provider reimbursement.

I am also deleting a \$750,000 augmentation from the Federal Trust Fund in Item 4260-101-0890 to conform to this action.

In order to correct a technical error in the Budget Bill, I am also reducing the amount payable from the Federal Trust Fund (Item 4260-101-0890) by \$167,000,000,000.

Item 4260-101-0890—For local assistance, Department of Health Services. I reduce this item from \$18,577,411,000 to \$18,576,661,000 and delete Provision 2.

I am reducing this item by \$750,000 to conform to my action in Item 4260-101-0001.

I am deleting Provision 2 because it is not possible to obtain federal matching funds without first spending General Fund resources, which have not been appropriated for this purpose. Provision 2 would require the Department of Health Services to expand the scope of the federally required LA County Health Department audit to include an unrelated audit.

Item 4440-101-0001—For local assistance, Department of Mental Health. I reduce this item from \$79,676,000 to \$59,718,000 by reducing:

- (1) 10.25—Community Services—Other Treatment from \$1,439,054,000 to \$1,438,746,000; and
- (1.5) 10.47—Community Services— Children’s Mental Health Services from \$20,000,000 to \$350,000.

I am reducing this item by \$308,000 to eliminate supplemental funding to thirteen counties that is used to match federal rehabilitation funds. This action prioritizes the limited funding available for other mental health programs that reach all or most counties, and is necessary to help build a prudent reserve and bring ongoing expenditures in line with existing resources over the long term.

I am reducing by \$19,650,000 the \$20,000,000 legislative augmentation to restore funding for the Children's System of Care program. This action is necessary to help build a prudent reserve and bring ongoing expenditures in line with existing resources over the long term. \$350,000 remains in this item for support of the Cathie Wright Technical Assistance Center, which provides training and technical assistance to counties to implement integrated health and human services programs.

During favorable economic conditions, the State has been able to fund a higher level of services to address the mental health needs of children. With current limited resources, however, priority must be placed on the provision of direct and essential services to these children, which will continue to be provided by the Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) program and local county realignment funding. With current limited state resources, however, priority must be placed on the provision of direct and essential services to these children. By maintaining the Cathie Wright Technical Assistance Center, it is my hope that the enhanced coordination of services within counties can be maintained until the economic situation improves.

Item 5175-101-0001—For local assistance, Department of Child Support Services. I reduce this item from \$252,159,000 to \$250,799,000 by reducing:

- (1) 10-Child Support Services from \$978,519,000 to \$974,519,000;
- (a) 10.01-Child Support Administration from \$875,095,000 to \$871,095,000;
- (3) Amount payable from the Federal Trust Fund (Item 5175-001-0890) from -\$447,175,000 to -\$444,535,000;

and by deleting Provision 9.

I am deleting the \$1,360,000 legislative augmentation for the Los Angeles County local child support agency. On the basis of equity and given the current condition of the General Fund, I cannot support this expenditure. With this reduction, \$871,095,000 remains for administrative support of local child support agencies.

I am also deleting a \$2,640,000 legislative augmentation from the Federal Trust Fund in Item 5175-101-0890 to conform to this action.

Item 5175-101-0890—For local assistance, Department of Child Support Services. I reduce this item from \$447,175,000 to \$444,535,000 by reducing:

I am reducing this item by \$2,640,000 to conform to the action I have taken in Item 5175-101-0001.

Item 5180-101-0001—For local assistance, Department of Social Services. I reduce this item from \$2,881,929,000 to \$2,881,900,000 by reducing:

- (1) 16.30-CalWORKs from \$5,231,280,000 to \$5,191,280,000;
- (2) 16.65-Other Assistance Payments from \$1,522,917,000 to \$1,522,888,000; and
- (6) Amount payable from the Federal Trust Fund (Item 5180-101-0890) from -\$3,677,127,000 to -\$3,637,127,000.

I am deleting the \$29,000 legislative augmentation for increased costs resulting from providing California Food Assistance Program benefits to convicted drug felons. This technical correction conforms to removal of the language from the associated Budget Trailer Bill.

I am also revising this item to conform to the action I have taken in Item 5180-101-0890.

Item 5180-101-0890—For local assistance, Department of Social Services. I reduce this item from \$3,677,127,000 to \$3,637,127,000.

I am reducing \$40,000,000 in federal Temporary Assistance for Needy Families Block Grant funds for CalWORKs employment services to nullify the effect of language included in the Budget Trailer Bill to provide unspent 2003-04 CalWORKs single allocation funds to counties in 2004-05. This language increases current spending and reduces the ability to maintain funding for the CalWORKs program within available federal and state resources.

While the budget ensures resources necessary to maintain existing benefits and services, this veto will improve the State's ability to continue these essential benefits and services in the future.

Item 5180-141-0001—For local assistance, Department of Social Services. I reduce this item from \$405,478,000 to \$405,454,000 by reducing:

- (1) 16.75-County Administration and Automation Projects from \$1,024,616,000 to \$1,024,557,000; and
- (3) Amount payable from the Federal Trust Fund (Item 5180-141-0890) from -\$580,825,000 to -\$580,790,000.

I am deleting the \$59,000 (\$24,000 General Fund and \$35,000 Federal Trust Fund) legislative augmentation for increased administration costs resulting from providing Food Stamp benefits to convicted drug felons. This technical correction conforms to removal of the language from the associated Budget Trailer Bill.

Item 5180-141-0890—For local assistance, Department of Social Services. I reduce this item from \$580,825,000 to \$580,790,000.

I am revising this item to conform to the action I have taken in Item 5180-141-0001.

Item 5180-151-0001—For local assistance, Department of Social Services. I reduce this item from \$768,509,000 to \$751,364,000 by reducing:

- (1) 25.30—Children and Adult Services and Licensing from \$2,049,695,000 to \$2,032,550,000;

and by deleting Provisions 11 and 12.

I am reducing the \$17,145,000 legislative augmentation for the Child Welfare Services Augmentation. During better economic times the State was able to pay the counties' share-of-cost to provide additional social workers for Child Welfare Services. However, due to limited state resources in the General Fund, the State is unable to continue to waive the 30 percent nonfederal county share-of-cost for the Child Welfare Services Augmentation in this Budget. Assuming that counties backfill this reduction with their own resources, \$91,440,000 in total funds remains available to counties to support this important program. I am deleting Provision 12 to conform to this action.

The Legislature adopted language that would require the Department of Social Services, with input from the Continuing Care Advisory Committee, to establish a panel to develop governance standards for applicants and operators of Continuing Care Retirement Communities, on or by July 1, 2005. I am deleting Provision 11, as it is inconsistent with efforts to streamline government and consolidate or eliminate boards and commissions to achieve operational efficiencies.

Item 5240-001-0001—For support of the Department of Corrections. I reduce this item from \$5,311,082,000 to \$5,309,719,000 by reducing:

- (2) 22-Health Care Services Program from \$942,126,000 to \$940,763,000.

I am deleting the \$1,363,000 legislative augmentation associated with the denial of the department's plan to reclassify 23.5 vacant staff psychiatrist positions to nurse practitioners. The department will reclassify these positions thereby eliminating the need for the augmentation. The reclassification represents a reasonable effort to address the department's increasing medical and mental health costs through improved efficiencies that do not compromise or lessen the provision of inmate care. The reclassification is consistent with policies adopted by the Department of Mental Health. The hiring of Nurse Practitioners will also assist in maintaining continuity of mental health care due to the reduced need of temporary contract staff.

Item 6110-001-0001—For support of Department of Education. I reduce this item from \$36,443,000 to \$36,193,000 by reducing:

- (2) 20-Instructional Support from \$53,393,000 to \$53,143,000.

I am reducing a portion of this state operations budget by \$250,000 to provide for a prudent General Fund reserve in light of the State's current fiscal condition. Over the last several years, other constitutional offices have had to absorb significant General Fund reductions without the benefit of the substantial federal funds provided to the State Department of Education. I would note that the Department has received \$2.1 million in federal fund augmentations in this budget, an increase that far exceeds this reduction.

Item 6110-130-0001—For local assistance, Department of Education. I reduce this item from \$10,300,000 to \$9,035,000.

I am sustaining \$9,035,000 for the Advancement Via Individual Determination program (AVID) to provide training to teachers and school leaders and assistance to schools in implementing this program that helps students prepare for and be successful in college that might otherwise not attend. During better economic times the State was able to fully support a variety of worthy programs. However, due to limited resources in the General Fund, the State is unable to continue to sustain the same level of support.

In making this reduction I encourage districts that currently participate in the AVID program to utilize some of the existing staff development dollars available to them. This budget already includes \$957 million for staff development and teacher training programs.

I am revising Provision 1 to conform to this action.

“1. Of the funds appropriated, \$1,300,000 is available for administration of the Advancement Via Individual Determination (AVID) centers and \$6,000,000 is available for competitive outreach grants to local education agencies for the AVID program. Notwithstanding any other provision of law, the remaining ~~\$3,000,000~~ \$1,735,000 shall be used solely for the provision of advanced placement teacher training or tutoring services.”

Item 6110-161-0890—For local assistance, Department of Education. I reduce this item from \$1,091,674,000 to \$1,090,974,000 by reducing:

(7) 10.60.050.032-IDEA, Family Empowerment Centers from \$3,432,000 to \$2,732,000,

and by deleting Provision 11.

I am deleting the legislative augmentation of \$700,000 to establish four additional family empowerment centers. An increase in the number of centers is premature, as funding has been provided to conduct a study to evaluate the effectiveness of the twelve existing family empowerment centers. If the study shows these centers are effective in helping students with special needs, their families and schools, I will consider an augmentation to provide better access.

I am deleting Provision 11 to conform to this action.

Item 6110-164-0001—For local assistance, Department of Education. I delete this item and Provision 1.

I am deleting the \$1,700,000 legislative augmentation to restore funding for the School-to-Career program. While I am very supportive of vocational education, I am interested in a more comprehensive proposal to reform and improve the State's efforts in this area rather than sustaining small programs that help a few schools. The State provides an estimated \$2 billion for vocational education in programs such as Regional Occupational Centers and Programs, secondary school vocational programs, apprentice programs and Community College programs. The multiplicity of programs and organizations involved makes it difficult to ensure accountability and to ensure all of California's students receive the kind of training and education they need to perform well in good jobs. The grants provided by this program were intended to provide short-term resources to assist local partnerships to implement activities and

working relationships that would be sustained after state funds expire. Once a program is established, it is expected that local businesses provide ongoing support to the extent that they benefit from these partnerships.

I am deleting Provision 1 to conform to this action.

Item 6110-485—Reappropriation, Department of Education, Proposition 98. I revise this item from \$320,249,000 to \$319,749,000, by deleting:

(8) \$500,000, on a one-time basis, to the State Department of Education for the establishment of a web-based model that would differentiate and compare the capabilities of electronic assessment resources. These funds would be available contingent upon legislation for this purpose.

I am deleting the legislative augmentation of \$500,000 for the establishment of a web-based model that would allow for comparisons of software packages used to evaluate pupil assessment results. Given that the State currently spends \$112.6 million on student testing and assessment, the establishment of this model may have merit. However, I would like to consider the expenditure of additional state funds for this purpose, in conjunction with the pending legislative measure. Until I can evaluate the final legislative proposal, it is premature to appropriate funds in the Budget Act for this purpose.

Item 6360-001-0407—For support of the Commission on Teacher Credentialing. I reduce this item from \$14,411,000 to \$14,211,000 by reducing:

(1) 10-Standards for Preparation and Licensing of Teachers from \$14,650,000 to \$14,450,000.

I am deleting the \$200,000 legislative augmentation to fund an additional 2.0 positions to address the credential processing backlog. This augmentation is unnecessary because the Commission can reduce the credentialing backlog with the staff provided in the budget. Providing credentialed teachers for all pupils is a goal of this Administration. The Commission should adopt greater efficiencies in conjunction with the review being conducted by the State Auditor, which is expected to be completed in the Fall of 2004, in order to eliminate the credential processing backlog.

Item 6870-101-0001—For local assistance, Board of Governors of the California Community Colleges (Proposition 98). I reduce this item from \$2,810,212,000 to \$2,778,803,000 by reducing:

(4) 10.10.040-Partnership for Excellence from \$225,000,000 to \$193,591,000;

and by revising Provision 4.

I am reducing this item by reducing the funding for the Partnership for Excellence program by \$31,409,000 to maintain the May Revision Proposition 98 spending level for community colleges. Instead, funds were provided to support additional student enrollments and to maintain lower fees for Bachelor degree holders. With this reduction, \$193,591,000 will still be available for this program through the general apportionments pursuant to Provision 4(a) of this item. The Legislature reduced the rigor of the accountability structure for this program proposed

in the Governor's Budget. Because this program lacks accountability at the district level, it is appropriate that this funding be reduced. However, given my strong commitment to the Community Colleges and the extraordinary work they do in educating over a million full-time equivalent students seeking transfer, technical and basic skills every year, I am willing to restore this funding in the 2005-06 budget provided that district level goals and performance evaluations are incorporated into the accountability structure as had been proposed.

I revise provision 4(a) as follows to conform to this action:

"4. (a) The amount appropriated in Schedule (4) shall be made available to districts in the same manner as the general apportionment funding in Schedule (1), and shall be made available in the same amount provided to each district for the Partnership for Excellence program in the 2003-04 fiscal year, including the funding deferred for this program pursuant to Section 84321 of the Education Code, and notwithstanding the basic aid status of any district. As a condition of receiving these funds, the districts shall first agree to assure that courses related to student needs for transfer, basic skills, and vocational and workforce training are accorded the highest priority and are provided to the maximum extent possible within the budgeted funds."

Item 8260-101-0001—For local assistance, California Arts Council. I delete this item.

I am deleting the \$1,000,000 legislative augmentation for local arts grants. Given the fiscal condition of the State, this reduction is necessary to help build a prudent reserve and bring ongoing expenditures in line with existing resources over the longer term.

Item 8570-101-0001—For local assistance, Department of Food and Agriculture. I reduce this item from \$6,078,000 to \$5,528,000 by reducing:

- (1) 11—Agricultural Plant and Animal, Pest and Disease Prevention from \$6,078,000 to \$5,528,000.

I am deleting the \$550,000 legislative augmentation that would provide specified Los Angeles County employees performing pest detection and eradication activities with permanent employee status. This augmentation is associated with pending legislation and I am opposed to the appropriation of funds for legislation that has not yet been approved by the Legislature and the Administration.

Item 8665-001-9326—For support of California Consumer Power and Conservation Financing Authority. I reduce this item from \$1,224,000 to \$424,000 by reducing:

- (1) 15-Energy Acquisition from \$738,000 to \$258,000;
- (2) 20-Planning and Policy Development from \$486,000 to \$166,000;
- (3) 30.01-Administration from \$343,000 to \$119,000; and
- (4) 30.02-Distributed Administration from -\$343,000 to -\$119,000.

I am deleting the \$800,000 legislative augmentation to increase funding for California Power Authority (Authority) activities. I proposed in my January 10 Budget to eliminate the Authority as a first step towards reorganizing California's energy agencies. While further energy

reorganizations may be proposed, the continued existence of the Authority will not contribute to improving California's energy situation and its elimination need not wait for more comprehensive energy reorganization proposals. Other State energy agencies already perform activities similar to those of the Authority. Elimination of the Authority is an appropriate first step to streamline energy programs and I renew my call on the Legislature to send me legislation statutorily eliminating this unnecessary organization.

Item 8830-001-0001—For support of California Law Revision Commission. I reduce this item from \$662,000 to \$512,000 by reducing:

(1) 10-Law Revision Commission from \$677,000 to \$527,000.

I am deleting the \$150,000 legislative augmentation. Given the fiscal condition of the State, this reduction is necessary to help build a prudent reserve and bring ongoing expenditures in line with existing resources over the longer term. With this reduction, \$527,000 remains to support the Commission's programs.

With the above deletions, revisions, and reductions, I hereby approve Senate Bill 1113.

/s/ Arnold Schwarzenegger

ARNOLD SCHWARZENEGGER